

# The Economist

MARCH 13TH-19TH 2010

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## Politics



Dozens of bombs in Baghdad, most of them non-lethal, heralded **Iraq's** general election on March 7th. Turnout was lower than in 2005 but most Iraqis were determined to exercise their democratic rights. Rival alliances led by the prime minister, Nuri al-Maliki, and by Iyad Allawi, a more secular predecessor, scored well. But preliminary results made it clear that no group will win an outright majority in parliament. It may take months to form a coalition government.

Shortly after it was announced that indirect "proximity talks" between **Israelis** and **Palestinians** would at last resume under American mediation, America's vice-president, Joe Biden, who was visiting Israel to bolster the negotiations, was embarrassed by the Israeli interior ministry. It declared that another 1,600 houses would be built for Jewish settlers in Israeli-annexed suburbs of Jerusalem that Palestinians see as part of their hoped-for future capital.

Several hundred people, mainly Christians, were killed in three villages near the city of Jos in **Nigeria's** Plateau state, which lies between the country's Muslim north and Christian south. The state governor blamed military commanders for ignoring warnings of the attack, which was seen as revenge for earlier killings in the area two months ago.

Sheikh Muhammad Tantawi, **Egypt's** senior cleric, died in Saudi Arabia, aged 81. He was a force for moderation who angered radical Muslims by,

among other things, rejecting their insistence that Muslim women should be wholly covered.

**What to do?**

The White House said it could take weeks to reach a decision about where to prosecute **Khalid Sheikh Mohammed**, the alleged mastermind of the September 11th 2001 terrorist attacks. This came after speculation that the administration might try Mr Mohammed in a military court following a backlash against its plan to have him tried under ordinary criminal-justice laws.

The first **gay weddings** took place in Washington, D.C. America's capital legalised same-sex marriage late last year, as have five states.

Eric Massa, a **Democrat**, resigned from his congressional seat after allegations that he groped male aides. Mr Massa insisted the Democratic leadership had forced him out ahead of a tight vote in the House on a health-care bill, which he opposed last year.

**In the freezer**

In a referendum in **Iceland** a huge majority voted against the government's plan to reimburse Britain and the Netherlands for losses of \$5 billion incurred when Landsbanki, an Icelandic bank, collapsed in 2008. All sides said they would continue to negotiate on a deal.

The **Northern Ireland** Assembly voted for a plan to devolve policing and justice powers to Belfast. The Ulster Unionist Party voted against the measure, despite an unexpected intervention from George Bush, who telephoned David

Cameron, leader of Britain's Conservative Party, to urge him to press the UUP to back the plan.

A coalition government was formed in **Ukraine** after a rule change that meant Viktor Yanukovich, the country's new president, wasn't required to call parliamentary elections. Mr Yanukovich chose Mykola Azarov, a Russian-born close aide and former finance minister, as his prime minister.

Michael Dickinson, a British cartoonist, was given a suspended fine by a **Turkish court** for depicting the country's prime minister, Recep Tayyip Erdogan, as a dog. Mr Dickinson had originally been given a jail sentence; had this not been commuted, he would have become the first person to be imprisoned for criticising the prime minister.

**Showing its fibre**

**Brazil** published a list of 100 items, from cars to cosmetics, for which it will impose punitive tariffs on the United States unless it complies with a World Trade Organisation ruling against subsidies to American cotton growers.

Sebastián Piñera, a wealthy businessman, prepared to be inaugurated as **Chile's** first centre-right president since the end of the Pinochet dictatorship 20 years ago. He inherits the job of rebuilding towns destroyed in the recent earthquake. The death toll is now thought to be around 500.

**Haiti's** president, René Preval, said he would ask America to phase out food aid to his country, which is struggling with the aftermath of an earthquake in January. Aid competes with Haitian-produced food and sorikis undermining an economic recovery.

**Venezuela** offered Manuel Zelaya, the leftist ousted as Honduras's president in last year's coup, a job heading the political council of Petrocaribe, a venture that subsidises Caribbean countries to buy Venezuelan oil.

**Brazil's** president, Luiz Inácio Lula da Silva, himself a former political prisoner, caused outrage at home for criticising a jailed Cuban dissident on hunger strike, and comparing him to a common criminal.

**Canada's** parliamentarians ate seal meat in their canteen as an expression of solidarity with hunters angry at a European ban on seal products.

**Women's hurdles**

Amid riotous scenes, the upper house of **India's** parliament passed legislation that would reserve one-third of the seats in the federal and state legislatures for women. The constitutional amendment still requires the approval of the lower house and a majority of state assemblies.

A suicide-bomber attacked a building housing an anti-terrorist arm of the federal investigative agency in Lahore, in the **Pakistani** province of Punjab, killing 13 people. Six people were killed when the office of a foreign aid agency was attacked in Manshera in the north-west of Pakistan.

Dulmatin, an Indonesian man suspected of carrying out the **bombing in Bali** in 2002, in which more than 200 people died, was killed in a police raid in Jakarta. Dulmatin was alleged to be a leading member of Jemaah Islamiyah, a group with links to al-Qaeda.

The ruling junta in **Myanmar** published laws to govern an election it has said will be held this year. One law introduces a new reason why Aung San Suu Kyi, the detained leader of the opposition, will be barred from the election: because she has a criminal conviction. ►►



## Business

EADS, the European maker of Airbus aircraft, and Northrop Grumman decided not to proceed with their joint bid for a \$35 billion contract to build new **flying tankers** for America's air force. The pair criticised the Pentagon's selection criteria, which, they maintain, favour Boeing's rival project. The process for awarding a contract to replace the ageing fleet of tankers has rumbled on for years. An aircraft based on the design of the Airbus A330 was tendered by EADS and Northrop and chosen by the air force in 2008, only for the decision to be rescinded after an official protest from Boeing over the evaluation of the bids.

EADS reported a loss of €763m (\$1.1 billion) for 2009 and will not issue a dividend for the first time. The European aerospace company took a €1.8 billion charge on cost overruns related to its delayed A400M military transport plane.

### Sturm und Drang

Angela Merkel, the German chancellor, gave her backing to proposed curbs on **credit-default swaps** and other financial tools that speculate in government debt, calling for the "fastest possible" implementation of new regulations. (America is also considering restrictions.) Some in Europe blame speculation in sovereign-debt markets for contributing to Greece's financial crisis.

There was a lukewarm reaction, however, to the idea floated by the German government of establishing a **European monetary fund** to rescue financially distressed countries in the euro area. Axel Weber, the president of Germany's Bundesbank, described such discussion as counterproductive.

**American International Group** agreed to sell Alico, its life-insurance business in foreign markets, to MetLife for \$5.5 billion. It is the second deal AIG has made in as many

weeks to divest its non-American operations and use the funds it obtains to pay back some of the bail-out money it owes the government.

Britain's **Prudential** said its planned listing on the Hong Kong stockmarket will now take place before it launches a record \$20 billion rights issue to fund its purchase of AIG's Asian assets. The move will allow more investors to participate in the offering.

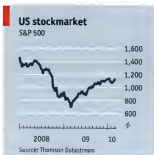
Britain's Financial Services Authority published new "stress test" benchmarks for banks that assume tougher economic conditions, such as an unemployment rate of 13.3%. The benchmarks provide a guide to banks about how much capital they should hold in an extreme downturn; the fall in British GDP last year was worryingly slightly more than the FSA's stress-test mark.

A report from the World Trade Organisation found that the global recession had not produced a huge increase in **protectionist measures**, as had been feared. Around 0.4% of the world's total imports were affected by new restrictive measures in the past six months. There were fewer "initiatives of anti-dumping

investigations" among G20 countries in 2009 than in 2008.

### Currency movement?

China's exports grew at their fastest pace for three years in February, rising by 46% year on year. Buoyant trade could put more pressure on China to let the yuan appreciate against the dollar, which America says is needed as Chinese goods are artificially cheap. The governor of China's central bank hinted that China's "special foreign-exchange mechanism" would be discarded "sooner or later". Meanwhile, a higher-than-expected rise in **consumer prices** led to expectations that the government would pare back stimulus spending.



On the anniversary of their lowest point during the financial crisis, **stockmarkets** continued to rise. The S&P 500 has dimmed almost 70% since March 9th 2009.

**Royal Dutch Shell** confirmed it was talking to Australia's **Arrow Energy** about buying its coal-seam gas assets, the latest example of a big oil company expanding its "unconventional" holdings. Shell is making its bid in partnership with PetroChina.

BP agreed to pay **Devon Energy** \$7 billion for the Oklahoma company's offshore oil assets, including those off the Brazilian coast.

It emerged that **Lyondell-Basell**, a European petrochemical company, has rebuffed a \$1.5 billion takeover offer from India's **Reliance Industries** and will stick with its restructuring plan.

### Dark side of the boon

EMI's woes continued when the head of its recorded-music division stepped down. Terra Firma, the private-equity firm that bought EMI in 2007, is raising cash to avoid defaulting on its debt to Citigroup. Meanwhile, lawyers for Pink Floyd took legal action against EMI in a dispute over royalties from internet downloads; the band also doesn't want its album tracks to be sold individually.

Other economic data and news can be found on pages 101-102



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# Europe's engine

Why Germany needs to change, both for its own sake and for others



ELSEWHERE in the world, Europe is widely regarded as a continent whose economy is rigid and sclerotic, whose people are work-shy and welfare-dependent, and whose industrial base is antiquated and declining—the broken cogs and levers that condemn the old world to a gloomy future. As with most clichés, there is some truth in it. Yet as our special report in this week's issue shows, the achievements of Germany, Europe's biggest economy, tell a rather different story.

A decade ago Germany was the sick man of Europe, plagued by slow growth and high unemployment, with big manufacturers moving out in a desperate search for lower costs. Now, despite the recession, unemployment is lower than it was five years ago. Although Germany recently ceded its place as the world's biggest exporter to China, its exporting prowess remains undimmed. As a share of GDP, its current-account surplus this year will be bigger than China's.

This feat gives the lie to the picture, common in America and Asia, of Europe as a washed-up continent incapable of change. And, for the rest of Europe, there is a lot to be said for having a strong economy at the continent's geographical and political centre. Yet Germany's success is paradoxically also causing problems for its neighbours—problems which they, and Germany, need to address.

## The old and the new

Germany's impressive flexibility is the consequence of old virtues combined with new ones. The old consensus-building management system helped employers keep unions on side when costs needed to be held down. The famous *Mittelstand* (small and medium-sized firms, often family-owned) went through its operations, step by step, judging what to do in Germany, what to send abroad and what to outsource.

At the same time, economic policy took a new, liberalising, direction. The Schröder government introduced reforms to the labour market and welfare systems in 2003-04; spurred on by those, and by competitive pressures from Europe's single currency, German business ruthlessly held down real wages. Unit labour costs fell by an annual average of 1.4% in 2000-08 in Germany, compared with a decline of 0.7% in America and rises of 0.8% and 0.9% in France and Britain respectively. Although last year's recession hit Germany hard, its economy is in much better shape now than it was a decade ago—a point that should be noted in France, where President Nicolas Sarkozy has taken to railing against outsourcing, and in southern Europe, which bends over backwards to preserve overgenerous wages and restricted labour markets.

Germany is rightly proud of its ability to control costs and keep on exporting. But it also needs to recognise that its success has been won in part at the expense of its European neighbours. Germans like to believe that they made a huge sacrifice in giving up their beloved D-mark ten years ago, but they have in truth benefited more than anyone else from the euro. Al-

most half of Germany's exports go to other euro-area countries that can no longer resort to devaluation to counter German competitiveness.

While Anglo-Saxons were throwing money around, Germans kept saving. Domestic investment has not kept pace. The result of Germans' prowess at exporting, combined with their reluctance to spend and invest, has been huge trade surpluses. Germany's excess savings have been funnelled abroad—often into subprime assets in America and government bonds in such countries as Greece. It would be absurd to maintain that a prudent Germany is responsible for Greece's profligacy or Spain's property bubble (though a few heroic economists have argued this). But it is true that, within a single-currency zone, habitual surplus countries tend to be matched by habitual deficit ones.

## Give spending a chance

Imbalances cannot be sustained for ever, whether they are deficits or surpluses. Yet surplus countries tend to see themselves as virtuous and deficit countries as venal—the implication being that the burden of adjustment should fall on the borrowers. Germany's response to the troubles of Greece, Spain and other euro-area countries has followed just such a line. A bail-out for Greece, once taboo, is now being debated—and German ministers have even come out in favour of a putative European Monetary Fund (see page 76). But the idea that Germany should itself seek to adjust, through lower saving and higher consumption and investment, still seems unacceptable to Angela Merkel's government.

It is certainly true that Germany's neighbours have a great deal of work to do. France, Italy and Spain need to follow Germany in loosening up their labour markets; Italy, Spain and Greece need to tighten their public finances. But Germany also needs to push ahead with liberalisation. Its web of regulations is too constricting; its job protection is too rigid; its health, welfare and education systems still need big doses of change; its service sector is underdeveloped. You do not have to be a free-market zealot to think that it is too hard to start a new business in Germany, or to worry that a fat tax "wedge" to pay for health care and welfare reduces low-paid service jobs. Nor do all the changes Germany needs to make mean cutting government back. Too few women are in full-time work, partly because child-care support is lacking. The country's demographic prospects are dire.

A bold programme of German structural reforms would do much to boost consumption and investment—and, in turn, to raise Germany's GDP growth, which remains disturbingly feeble. Germany can also afford growth-boosting tax cuts without ruining its public finances. If only Germany would lift its head, it would see that this is in its own wider interest, both because it would be good for German consumers and because it would help the euro area to which it is hitched. Europe's single currency, like the European Union itself, owes much to past German leadership. When that goes missing, both the currency and the club tend to suffer—and Germany is foremost among the losers. ■

## Sovereign credit-default swaps

## Smokescreen

Blaming speculators for sovereign-debt woes is misguided. Banning them would be worse



month. "People think we are in a terrible mess. And we are."

That hasn't stopped his boss, George Papandreu, and other European leaders from jabbing fingers elsewhere. To judge by this week's political rhetoric, the blame for Greece's woes lies largely with speculators, who stand accused of buying sovereign credit-default swaps (CDSs), a form of insurance against government default, in the hope of profiting from jitters about sovereign debt. "Unprincipled speculators are making billions every day by betting on a Greek default," said Mr Papandreu in a speech in Washington, DC.

The wheels of policy are now turning. The European Commission has said it will examine the case for banning "naked" sovereign CDSs, in which buyers of protection on government debt do not actually own any of the underlying bonds. A European ban would not do much good on its own: trading would simply move to other markets. The official American response to Mr Papandreu has been tepid. But the issue is on the G20's radar. The Financial Stability Board, which is co-ordinating international financial reform, thinks that tighter rules are likely.

Some reform of the market for sovereign CDSs is needed. Like other credit-default swaps, there is a strong case for moving these over-the-counter instruments on to central clearing-houses, which stand between buyers and sellers and reduce counterparty risk. Sensible changes of this kind are already in train in Europe and America. But the idea that speculators are to blame for Greece's troubles is wrong-headed, and the sol-

GREECE had a budget deficit of 12.7% of GDP in 2009. It has a record of dodgy accounting. Its own leaders acknowledge how dire its fiscal situation is. George Papandreu, the country's finance minister, summed it up pretty well last

ution of banning naked sovereign CDSs is even worse.

First, the diagnosis. The case against buyers of sovereign CDSs is that by driving up the price of insuring against default, they cause spreads on underlying cash bonds to widen, making borrowing more expensive and bringing default—and a big payout—closer. That drives up the price of insurance further, setting the cycle in motion again. The problem with this analysis is that the tail is far too puny to wag the dog. There are \$9 billion of net Greek sovereign CDSs outstanding, compared with more than \$400 billion of Greek government bonds. It is a similar story in other countries under pressure. According to the Bank for International Settlements, the proportion of net CDS positions to government debt is highest in Portugal, at just 5%. Moreover, CDS and bond prices have tended to move together, rather than one driving the other.

## Naked self-interest

Even so, surely it cannot be right for people who do not own any government debt to profit from sovereign distress? Actually, it can. When states get into trouble, other borrowers suffer too: taxes rise, economies slow. So investors in Greek companies have legitimate reason to protect themselves against Greek sovereign risk. If they cannot, they will simply charge companies a higher risk premium instead. Buyers of protection also have to find sellers—banks, say, or hedge funds. But sellers want to offload their risk as well. If sellers are not allowed to buy protection themselves, investors will find it harder to hedge. If so, banning naked CDSs could end up making it more expensive for governments to borrow.

There is a long tradition of shooting messengers who bring bad news. But the simple explanation for rising borrowing costs—Greece's finances are tatty—makes far more sense than the complex, politically convenient one. The sovereign-CDS debate is a smokescreen to obscure an unpalatable truth. ■

## China, America and the yuan

## Yuan to stay cool

The best thing American politicians can do to encourage a stronger Chinese currency is keep calm



One of the few good things about the Great Recession of 2008-09 was a merciful absence of complaints from America's Congress about China's currency. The yuan's gradual appreciation stopped in July 2008, and China has since kept its currency tightly pegged to the dollar. But even as America suffered its worst downturn in the post-war period, its legislators steered clear of ranting against China.

That restraint was driven partly by fear. At the depths of the crisis even the most myopic Congressmen worried about a de-

scent into 1930s-style protectionism. And it was driven partly by the facts. As investors' flight to safety strengthened the dollar in late 2008, the yuan rose along with it. With America's imports slumping it was hard to blame Chinese workers for American joblessness. And thanks to its huge domestic stimulus China added to global demand last year, as its current-account surplus shrank sharply.

Now things have, unfortunately, gone into reverse. As policymakers in both countries shift from cushioning recession to managing recovery, the rigidity of the yuan is, once again, becoming a source of tension—one that a still-fragile global recovery can ill afford.

America sounds increasingly determined to push its ex- ➤

ports, and its attitude to China has hardened. Mr Obama has set a goal of doubling exports in five years (see page 32) and has promised to "get much tougher" over what it regards as unfair competition from China. Speculation is rising in Washington, D.C., that the Treasury will brand China a currency "manipulator" in its next exchange-rate report. With America's unemployment at 9.7% and the mid-term elections approaching, the appeal of China-bashing is rising in Congress, too. Several senators recently revived a mothballed demand that the Commerce Department should investigate China's currency regime as an unfair trade subsidy.

Beijing, in turn, shows little sign of budging on the yuan, even though the latest figures show surprisingly strong export growth and higher-than-expected inflation. Zhou Xiaochuan, the head of China's central bank, caused a brief flurry in currency markets when he argued on March 6th that keeping the yuan stable against the dollar was "part of our package of policies for dealing with the global financial crisis" from which China would exit "sooner or later". But he made it quite clear that China would be cautious and gave no hint that sudden exit was imminent. In recent days various other Chinese officials have put even more emphasis on the stability of the currency, bristled at outside pressure to hurry up and denounced American "politicisation" of the exchange-rate issue.

A speedy end to the dollar peg makes economic sense for China as well as for the world. A stronger, more flexible currency would make it easier for China to control inflation and asset bubbles. A dearer yuan would also help rebalance China's economy towards domestic spending by boosting Chinese consumers' purchasing power, discouraging excessive invest-

ment in manufacturing and squeezing corporate profits. That would put the global recovery on a steadier footing, especially if a stronger yuan were mirrored by appreciation of the currencies of other Asian emerging economies. And China would gain politically by helping to diffuse protectionist pressure from abroad.

But it would not be a magic bullet, either within China or outside. Rebalancing China's economy will require big structural reforms, from tax to corporate governance, as well as a stronger currency. A stronger yuan would not suddenly bring back millions of jobs to America. Since America no longer makes most of the products it imports from China, a stronger yuan would initially act more like a tax on consumers.

### Soft-soaping, not sabre-rattling

Will the administration's new tough talk move things in the right direction? Those who argue in favour of sabre-rattling do so on two grounds: first, that it is likely to shift China's position, and second, that a stronger stance against China's currency from the White House will diffuse protectionist sentiment in Congress. Both are dubious. China's reactions so far suggest that American complaints make an imminent currency shift less, not more, likely. And a row could spur rather than diffuse anti-China action in Congress.

Rather than raising a bilateral ruckus, America would be far better off convincing other big economies in the G20 to press together for a yuan appreciation as part of the world's exit strategy from the crisis. Cool and calm multilateral leadership will achieve more, with fewer risks, than a Sino-American currency spat. ■

### Agriculture in India

## Crop circles

Indian policymakers should see agriculture as a source of growth, not votes



INDIA'S industry is going from strength to strength. Manufacturing grew by 14.3% in the fourth quarter of 2009, compared with the same period in 2008. Politicians celebrate the achievements of "India Inc", applauding its acquisitions abroad

and welcoming the foreign investment it attracts.

They do not show anything like the same confidence in "Bharat Inc", which is how India's rural economy is sometimes described. Bharat, which means India in Hindi, is a different country. The rural heartland is courted for votes, smothered with regulations, and shielded from the global economy that corporate India is busy conquering. Yet the government cannot achieve the "inclusive" growth it aspires to without robust progress in agriculture, which still employs about half of India's workforce. Agricultural growth cuts poverty twice as fast as other kinds, because the poor are mostly rural and they spend more than half of their household budgets on food.

Indian agriculture can comfortably feed the country, but that remains the sum of its achievement. The rapid increases in productivity achieved during the green revolution have levelled off, with soils responding only grudgingly to the heavy

use of fertilisers. And farmers remain at the mercy of the monsoons. Thanks to the worst rains since 1972, agriculture shrank by 2.8% in the year to the fourth quarter. This year, for the first time in the country's history, India's factories may contribute more to GDP than its farms, forests and fisheries.

Indian agriculture has performed so poorly largely because governments have treated it as a source of votes rather than as an engine of growth. The contrast with China is telling. China's epochal reforms began on the farms. The growing efficiency of agriculture liberated labour and capital, spawning non-agricultural firms which eventually challenged state-owned enterprises. India freed industry first, and has barely reformed agriculture at all. Its policymakers remain stuck in the mindset of the 1960s, when India relied on food aid from America. They are more anxious to avoid such humiliation than to exploit fresh opportunities: they regard a state warehouse bursting with grain as a sign of success, and imports of wheat as a mark of defeat. Politicians' outbursts against hoarders and speculators have stymied the development of storage facilities and commodity markets. And their concern to protect farmers from exploitative merchants has slowed the development of contract farming (see page 65).

India's government still fixes prices and subsidises inputs, when public money would be far better spent on infrastruc- ➤

ture and research. It sets a floor under the prices of 25 commodities including rice, wheat, sugarcane and cotton, which discourages farmers from diversifying. Ashok Gulati of the International Food Policy Research Institute points out that an additional rupee spent on agricultural research yields 9.5 rupees of output. An extra rupee subsidising fertilisers, by contrast, returns just 0.85 rupees. Better storage and transport facilities would also allow farmers to profit from growing fruit, vegetables and flowers. These offer better prospects than staple cereals, like wheat and rice, which preoccupy policymakers. According to the World Bank, transporting grapes to the Netherlands from India costs more than twice as much as transporting them from Chile, even though Chile is twice as far.

#### Not so down on the farm

The government is gingerly taking steps to improve things. On April 1st it will introduce a new fertiliser policy, which should add more nutrients to the soil while leaching fewer resources from the public coffers. In February's budget the finance minister cut duties on cold-storage equipment and allowed Indian

companies to borrow abroad to pay for it. The government acknowledges the money lost to middlemen and declares that we "need to take a firm view on opening up of retail trade". But saying you need to take a view is not the same as taking one. And a "firm view" could be firmly in favour or firmly opposed.

India needs to stop seeing agriculture as a problem to be nursed and start thinking of it as an opportunity to be grasped. The Doha Round of global trade talks has been repeatedly held hostage to India's fears for its "subsistence" farmers. (In fact, few Indian farmers grow food purely for their own consumption, and if they did, they would, by definition, have nothing to fear from trade.) Despite all the talk of an agrarian crisis, India is already an agricultural force in some crops. It is the second-biggest exporter of cotton and was a net exporter of cereals for a decade after 1995, Mr Gulati points out.

India will struggle to become an agricultural powerhouse like Brazil—its landholdings are too fragmented and its water sources too stressed for that. But its policymakers should treat farms as a potential source of growth, not just of votes. Then they might start to yield pride rather than pity. ■

#### Unconventional gas

## This changes everything

Natural gas is becoming less like oil and more like coal, which is a good thing



WOODY ALLEN, in earlier, funnier days, told a joke about two women in a resort in the Catskills bemoaning the cuisine: "The food at this place is really terrible," says one. "Yeah, and such small portions," replies her friend. Thus the current

thinking about fossil fuels. They are dangerous things, their production and transport often unpalatable, the less visible environmental consequences of their use worse still. And there is not enough of them. The current boom in "unconventional" gas (see pages 72-74) seems likely to provide good news on both fronts.

The three conventional forms of fossil carbon—oil, coal and gas—differ both in the way the Earth stores them and the way its people use them. Oil is found in relatively few places, and its energy density, pumpability and ease of use in internal-combustion engines makes it particularly well suited as a transportation fuel. Coal is found in many more places—a whole geological era's worth of rocks, those of the Carboniferous, are named in its honour—and it cannot be pumped around, but can be crushed and burned and so produces baseload power. Gas, typically found and exploited in the same sort of places as oil, is easily moved around through plumbing but is not, usually, seen as a transportation fuel. It has filled niches in between: Europeans warm their homes with it and many developed countries generate some of their electricity with it.

Now new drilling technologies pioneered in America are allowing gas to be extracted from more types of rock—most notably shales, but also so-called "tight" sands and some coal formations—and thus from much more widespread sources. Other innovations, such as producing liquefied natural gas from offshore sources and shipping it to its destinations directly, and

technologies that might allow exploitation of the natural gas that is frozen into some permafrosts, further increase the scope for new production. All told, this transition to more plentiful, diverse and widespread reserves in effect makes gas a bit more like coal, and a bit less like oil.

Coal, unlike oil, is hard to embargo: and an obvious consequence of the changes in gas production is that they make gas supply a less potent political tool. In Europe, where Russia has used supply cut-offs to put pressure on neighbouring Ukraine, discoveries of shale gas in eastern Europe could diversify supply in a useful way. But countries can benefit from unconventional reserves without actually having any. More producers and a larger capacity to ship the fuel in its liquefied form—a capacity developed when no one foresaw that America would be supplying its own gas demand, thanks to its shales—will make gas a more fungible commodity. That continuing trend will mean that very few countries will ever be locked into a single source. In this more open market, existing gas producers reliant on conventional reserves that are hard to get at (which includes many Russian reserves) will have their prospects damaged, especially since the gas price will be increasingly decoupled from that of oil.

#### Burning issues

In the medium term the demand side of the business should change. More diverse and abundant sources, which are making gas more coal-like, should also make it easier for electricity generators to switch from coal to gas. Plants that burn coal produce about twice as much carbon dioxide as generators using gas. Despite the lack of carbon prices in most economies, the uncertainty around future restrictions on carbon already adds to the risks of building new coal plants. Safer-looking gas and riskier-looking coal provide an environment in which the effort required to induce switching from one to the other is less- ▶▶





## "IT'S ALL ABOUT KNOWING HOW TO TALK TO PEOPLE."

Alice Wong, Flight Purser  
*Cathay Pacific Airways*

Alice says that if she'd never left Hong Kong, she would probably be too scared to talk to strangers. You can meet her and other members of the Cathay Pacific team at [www.cathaypacific.com](http://www.cathaypacific.com). And while you're there, check out our great fares to over 110 destinations worldwide,\* including San Francisco, Alice's home. If you meet her, ask her what she likes best – she talks to everyone now.

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ened; environmental prudence increasingly goes with the grain of the market. The relevant effort need not be limited to carbon pricing. Simply helping China and India realise their indigenous unconventional gas supplies could do a lot to encourage them to switch fuels.

That gas is more like coal these days is not unequivocally good news. Coal mining is a messy business, often wreaking terrible environmental damage nearby. Conventional gas production is relatively easy, but getting gas out of unconventional sources requires some physical and chemical violence to make the rocks more permeable. The history of fossil-fuel extraction suggests that these processes may do harm. The

risks need independent study, and both shale-gas producers and environmental regulators need to take them seriously.

Another danger is that unconventional gas will push aside not just a swathe of coal-fired power stations, but promising renewables, too. That would be wrong; emitting less carbon is not a substitute for emitting none. And, happily, gas-fired stations can boost the prospects for renewables, by smoothing out fluctuations in supply from renewable sources. Unconventional gas is a striking example of innovation turning assumptions on their head and opening up new possibilities. As such it should serve to inspire, as well as facilitate, further breakthroughs. But it doesn't abolish the need for them. ■

## Armenians and Turks

# Facing up to history

Both Turkey and the Armenian diaspora should look for ways of rewriting a familiar script



NOT for the first time, Armenians sense a moment of vindication in their struggle for the acknowledgment of the tragedy that befell their forebears during the first world war. Turkey is angry. And America's administration is straining to

limit the damage.

The latest Turkish-American rift over the Armenian question—after a congressional committee voted on March 4th to recognise the killings of 1915 as genocide—looks wider than some previous ones. It coincides with a general scratchiness between America and its ally. Turkey is reluctant to slap sanctions on Iran. Anti-Americanism is running high among Turks. Some suspect that Barack Obama retains his view (expressed as a senator in 2008) that “the Armenian genocide is not an allegation...but rather a widely documented fact.”

Still, the chances are that after a deep sulk, Turkey will send its ambassador back to Washington, and the administration will persuade legislators to avoid a vote in the full House, for fear of wrecking an important relationship—and worsening the fading prospects for reconciliation between Turkey and Armenia. A tired diplomatic ritual will play out once again.

## A happier ending?

Can any actor in this sorry drama do anything to improve the script? One day a Turkish leader will be statesman enough to see that national dignity is better served by acknowledging the sins committed on Anatolian soil than by suppressing debate and punishing truth-tellers. Such a leader could decouple relations with Armenia from Ottoman history. (In any case, their argument today is more about the aftermath of the war over Nagorno-Karabakh in the 1990s than over 1915.)

Some people in Turkey realise this. As one Turkish columnist has noted, for Turkey to be so touchy about the minutiae of a congressional vote betrays weakness, not strength. And nothing would silence Turkey's detractors more than a genuine, no-holds-barred effort to probe the events of 1915. The result of the Armenian deportations is indisputably and horrifically clear: hundreds of thousands, probably more than a million, died. But there is room for scholarly inquiry into the

working of the murky state machinery that led to that outcome—to determine whether the tragedy was principally the result of murderous design or culpable neglect. By inviting all scholars to peruse its archives (something it has done only patchily), Turkey could disarm its critics.

For Armenians, securing recognition of their ancestors' fate is a sacred cause. They can hardly be expected to set aside their bitter memories because (as the heads of five big firms have complained) American arms exports are at risk. Nor will Armenians accept the argument that assessing the slaughter of 1915 is the work of scholars not of political authorities, executive or legislative. As State Department records show, the American government of the time analysed those events and it had no doubt that “extermination” was the aim.

But if Armenians want to boost the chances that the authorities in Ankara will eventually allow a searching look at one of the 20th century's darkest episodes, they might think harder about their congressional campaign. More than at any time since the modern republic was founded in 1923, Turkish society is questioning received truths (see pages 63–64). That is mainly thanks to writers, journalists and citizens who risk their skins to campaign for a more honest approach to history. Among the finest of these was Hrant Dink, an ethnic Armenian editor who was murdered in 2007. He worked for a broad reconciliation between the Turks and Armenians, including the recovery of historical truth, but not confined to it.

In his view, and that of other Turkish citizens who work for historical justice, pressure from Congress could make the truth more elusive by stiffening the backs of nationalists. Even among Turks who believe that the slaughter of 1915 qualifies as genocide, there is a sense that mentioning the g-word in a congressional resolution works against them.

If Turkey were a totalitarian state, there would be no case for Armenian self-restraint. But precisely because Turkey is an (albeit imperfect) democracy, the emphasis should be on giving Turks the best possible chance to face up to their own past. Instead of telling Turks what to think, Armenians should urge the authorities to promote inquiry within Turkey, starting with an end to measures such as article 301 (which criminalises “insults to the Turkish nation”). The idea of a stronger, healthier Turkish democracy may puzzle some Armenians; but it is the best way to bring about the honesty for which they yearn. ■



## Antitrust policy in Europe

**SIR** – I am pleased that you acknowledged the important work carried out by the European Commission in enforcing competition laws (“Unchained watchdog”, February 20th). The commission’s success in this field is built on sound legal and economic analysis, fair and transparent procedures and a fining policy that seeks to deter misbehaviour. Given what is at stake for consumers, companies and the internal market, I am fully aware of the need to balance effective enforcement with procedural fairness.

Regarding those who think “Europe’s trustbusters should be kept on a tighter leash”, companies under investigation have the opportunity to defend themselves fully and present their case in both written and oral evidence. In terms of transparency and accountability, our administrative system compares favourably with many others. In competition matters the commission is actually kept on a tight rein by the European courts, which require our decisions to be fully reasoned. They subject that reasoning to a very close scrutiny and ensure that the rights of the defence are fully respected. Notably, the courts have unlimited powers to reduce, or indeed increase, antitrust fines imposed by the commission.

All in all, while I believe that our procedures are sound, I am always open to constructive criticism with a view to making improvements.  
JOAQUÍN ALMUNIA  
European commissioner for competition  
Brussels

**SIR** – It was heartwarming to see you take pity on monopolistic companies, barely able to defend themselves when hounded by ruthless competition regulators. It seems that lobbyists only start to worry about European antitrust procedures the very moment the commission hands down tougher fines to companies for violating the rules of free competition. This probably

tells us more about the chicken-feed-fines of the past than about reform.

The much more intriguing question is why the commission has generally fared so well in taking on powerful companies. So many other institutions – parliaments, banking regulators, fraud investigators, environmental protection agencies – constantly fail to do so. The institutional design of European Union competition law seems to have been thought out pretty well.

RUPPRECHT PODSZUN  
Research fellow  
Max Planck Institute for  
Intellectual Property,  
Competition and Tax Law  
Munich

**SIR** – You stated that “Europe’s Charter of Fundamental Rights will finally be ratified next year” (“Prosecutor, judge and jury”, February 20th). The charter is already binding and in force by virtue of the Lisbon treaty. Regardless, the charter is not the document you wanted to cite, which should have been the European Convention on Human Rights (CHR). The Lisbon treaty creates a legal basis for the EU itself (rather than member states) to ratify the CHR, which could possibly introduce profound changes to the EU’s legal system. One consequence might be that competition cases are tried by the European Court of Human Rights in Strasbourg (in this you were correct).

MACIEJ TOMASZEWSKI  
Bruges

**SIR** – You mentioned the European Commission’s antitrust ruling against Intel. But what you did not mention is that the European Union’s ombudsman himself said that the small procedural detail he identified had no impact on the outcome on the merits.

As well as the EU’s decision, which was based on one of the largest files ever assembled by the commission in an antitrust case, antitrust regulators in Japan and South Korea both found that the same Intel tactics were illegal. Intel itself settled with Advanced Micro Devices

(AMD) last year for \$1.25 billion rather than risk a public antitrust trial in a court based in America. Furthermore, the voluminous evidence assembled in this settled case, consisting of 200m pages and countless hours of testimony, was used by the New York state attorney-general and the Federal Trade Commission when deciding to bring actions against Intel. The facts are clear and Intel’s problem is not process.

RICCARDO CELLI  
Partner  
O’Melveny & Myers  
Brussels  
The author represented AMD in the European Commission’s investigation against Intel

## Romney marches?

**SIR** – Why cast Mitt Romney as a potential front-runner for the Republican presidential nomination in 2012 (“Fired up, ready to go”, February 27th)? I don’t see how his millions of dollars, a failed bid for the presidency in 2008, a series of dismal performances in that year’s debates and second place in this year’s poll of conservative activists make him worthy for consideration.

Moreover, your use of the term “radical libertarianism” was disturbing. While I would not join the mobs at a tea party, I do know there is nothing inherently “radical” about libertarianism. Why cast the philosophy in such a bad light? Free trade, limited government, personal responsibility, the rule of law and free markets are fantastic aspects of Western civilisation. Pity the American libertarian.  
DENNIS COLASURDO  
San Diego

## Sizeable facts

**SIR** – I often think you are unaware of America’s geography. You said that Arkansas is a “small” state “allowing door-to-door campaigning” (“Democrats beware”, February 27th). Arkansas is 53,479 square miles (137,732 square kilometres), larger by land mass than New York state and far bigger than Pennsylvania.

Arkansas is actually larger than England, but with one-eighth the population. The population density of Arkansas is around 50 people per square mile. This is hardly conducive to door-to-door campaigning.

You also repeatedly refer to California as America’s largest state. This would come as a surprise to readers in Alaska and Texas. Alaska is four times the size of California. Texas is larger by more than half. If you mean that California is America’s most populous state, why not say so?  
RICHARD HARDING  
San Francisco

## Cable in the pipeline

**SIR** – Why is the City of London so bearish about a hung parliament (“Sterling throws a wobble”, March 6th)? If this were the outcome of the election, then the government would include either Conservatives and Liberal Democrats, or Labour and Liberal Democrats. In either case, the chancellor who would command the widest respect both in Parliament and nationwide would surely be the Liberals’ current economic spokesman, Vince Cable. So why the despondency?  
GRAEME ALLEN  
Eaton Bishop, Herefordshire

## An improper Charlie

**SIR** – Your foray into American vernacular in your obituary of Charlie Wilson (February 20th) would have been a lot more effective if you had remembered to keep it up all the way through to the last sentence. Nobody in Lufkin, Texas, would “put up two fingers to the devil”. One particular finger would have sufficed.  
BOB LADD  
Edinburgh ■

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E-mail: letters@economist.com  
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More letters are available at: [Economist.com/letters](http://Economist.com/letters)



## Green squeeze

Through public investment, subsidies and regulation, governments are creating "green" jobs. Our online debate asks if these really represent a net benefit. Rather than trying to pick technological winners, should governments instead leave the task of job creation to the market?

[Economist.com/debate](#)



## Wominnovation

Some innovations that were not designed for the particular benefit of women—from the scooter to the mobile phone—have turned out to be especially useful for their empowerment. A new study argues that inventions can often achieve more if women participate in their design

[Economist.com/business-finance](#)



## Return of the blob

Robotics experts have started to look to the humble amoeba for inspiration. The machines they are making, which are able to deform and move in ways that allow them to enter very small spaces, could have applications in fields as diverse as search and rescue, and endoscopy

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Britain's man at the UN discusses Iran, America and Ban Ki-moon

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Bloggers consider whether Barack Obama has shown enough muscle in his dealings with the regime in Tehran

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If a deal is not reached soon, Brazil will apply punitive tariffs against the United States for its cotton subsidies

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# Global Director of Business Development A Challenging Brief

CLIFFORD  
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Clifford Chance is a leading international law firm. This role, based in Canary Wharf, London will include a range of challenging responsibilities:

#### The Role:

- To work closely with partners ensuring a cohesive approach to business development and client relationship management worldwide.
- To develop and implement tactics for business opportunity maximisation, ensuring the best possible structures and systems are in place.
- Take a lead in marketing the firm's industry sector offering, pursuing opportunities to enhance internal communication, co-ordination and action.

#### The Candidate:

- Candidates will need to come from a background where client service is paramount with relationship management forming the core of business development activity.
- A highly experienced, organised and intelligent professional is sought who brings thought leadership and innovation to the table.
- A robust and credible individual able to work with a wide variety of personalities in an international arena with enthusiasm and authority.

Please reply in confidence, with full career and current salary details, quoting reference AMP/SDM/31143E or go to [www.odgers.com/31143](http://www.odgers.com/31143)

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Do you have a passion for Latin America and the Caribbean? Are you looking for challenging work? Do you want to lead innovation in your field?

You can **make a difference** at the Inter-American Development Bank. We are searching for outstanding young professionals to fill these positions:

Deadline for applications: **April 1st, 2010**

For full job descriptions, responsibilities and requirements please go to [www.iadb.org/careers](http://www.iadb.org/careers)

The IDB offers competitive compensation packages and a diverse and inclusive work environment.

#### Young Professionals Program

The IDB seeks exceptionally qualified and motivated candidates with experience in: **Environmental and Natural Resources; Economic Development; Social Development; Project Finance; Infrastructure;** and/or **Private Sector** - to participate in the 24-month long Young Professionals Program.

All applicants must: be a citizen of one of the Bank's member countries; be 32 years of age or younger as of January 1st of this year; be fluent in English and Spanish, with a working knowledge of a third official Bank language (French or Portuguese); have obtained a Master's, Licenciatura or equivalent degree from an accredited university at the time of submitting the application; have one or more years of professional experience in business related to the Bank; and be exempt from any military obligation for the duration of the program.

Applicants who wish to declare themselves as Afro-descendant or Indigenous must meet all of the criteria above with the following allowances: be 37 years of age or younger as of Jan. 1, 2010; be fluent in one of the Bank's working languages and have a working knowledge of a second official Bank language is desired.



**syngenta foundation**  
 for sustainable  
 agriculture

*improving the livelihood of smallholder farmers*

The Syngenta Foundation for Sustainable Agriculture invites applications for the post of

**Head of Business Partnerships**  
 based in Basel, Switzerland

The Syngenta Foundation for Sustainable Agriculture strives to create value for resource-poor small farmers in developing countries through innovation in sustainable agriculture and the activation of value chains.

Reporting to the Executive Director, the Head of Business Partnerships will coordinate Foundation work in agriculture and food value chains for smallholder farmers. He or she links farmers and their communities to relevant services and markets.

The Head of Business Partnerships develops strategy, principles of engagement and scale-up of Foundation projects. He or she innovates in social entrepreneurship, partnership models and inclusive supply chains, and interacts with peers across all relevant sectors. The Head of Business Partnerships works closely with a wide range of partners to create synergy and value for Foundation projects.

The ideal candidate will hold an MBA or similar post-graduate qualification and have extensive experience in business development and social entrepreneurship in developing countries. Knowledge of agricultural value-chains would be an advantage. We are looking for a highly motivated, proactive individual with exceptional conceptual, organizational and interpersonal skills. Fluency in English plus Spanish, Portuguese or French is required. Project work involves considerable long-distance travel.

 To apply, go to [www.syngentafoundation.org](http://www.syngentafoundation.org)  
 Deadline March 31st, 2010

**Executive Chairman**  
**for the Independent Statistical**  
**Authority of the Hellenic Republic**

The Hellenic Statistical Authority (ELSTAT), recently legislated as a public independent authority, is seeking to appoint its Executive Chairman for a four-year term.

ELSTAT is responsible for the regular and systematic production and publication of official statistics, the implementation of statistical surveys, censuses, and studies in accordance with Eurostat and national legislation. ELSTAT represents Greece as the "national statistical service" referred to in Paragraph 1, Article 5, of Council Regulation EC 223/2009 and has a permanent staff in excess of 800 people.

Candidates should hold a doctorate and have academic or professional experience in statistical science, statistical studies and surveys or similar fields. Preference will be given to candidates who in addition to the above have managerial experience in sizeable organizations. A working knowledge of the Greek language is necessary.

 The Greek law describing in detail the competences of ELSTAT, as well as the tasks and responsibilities of its chairman, can be found at the website address: [www.mnec.gr](http://www.mnec.gr). All applications should be submitted via the website [www.opengov.gr](http://www.opengov.gr) no later than 20 March 2010.

**THE INSTITUTE OF INTERNATIONAL FINANCE,**  
**WASHINGTON, DC**

The Institute of International Finance is the world's largest global association of financial institutions with over 375 members in more than 70 countries. We provide economic analysis to our members on global macroeconomic and capital market developments, act as a vehicle for exchanging views on global supervisory and regulatory issues, and serve as a forum for engaging the private financial community in discussions with the public sector on emerging markets policy issues. We are currently recruiting for the following positions:

**Policy Advisor, Regulatory Affairs**

This position will be actively involved in 1) analyzing new initiatives of IIF regulatory significance by IIF entities such as the G20, the FSB, the Basel Committee, IOSCO, the IAIS, the European Commission 3) developing analytical work on industry practices, 4) contributing to the building of global industry consensus on a wide range of regulatory issues; and 5) managing the activities of industry working groups and high-level committees, including the development of detailed agendas and position papers. Applicants should have at least 5 years' related professional experience and a graduate degree in a relevant discipline. Professional understanding of risk management issues is essential as well as relevant experience with prudential regulation proposals such as Basel II or Solvency II. Experience with IIF, European or U.S. regulatory processes for financial services institutions is also required. Must have a strong command of the English language and exceptional analytical and writing skills.

**Economist/Senior Economist – Asia/Pacific**

This position will be responsible for conducting macroeconomic analysis and writing reports on countries in East Asia, with a special focus on China. The individual will also be expected to maintain comprehensive databases of historical time series and forecasts for assigned countries. Applicants should have a Masters or PhD in IIF Economics and 5-7 years professional experience writing macroeconomic analytical reports, preferably focused on East Asia. Strong English writing skills are essential, along with sound quantitative, spreadsheet and database abilities. Regional language skills will be a plus preference.

 If you are interested in applying for any of these positions, please email resume, cover letter, and salary requirements in Microsoft Word format to [personnel@iif.com](mailto:personnel@iif.com).

 For more information on the IIF please refer to our website at [www.iif.com](http://www.iif.com).

**EDITOR, FOREIGN AFFAIRS**

 The Board of Directors of the Council on Foreign Relations is seeking to appoint a new editor of *Foreign Affairs*, with the appointment to begin in late 2010.

 An independent search committee has been established to identify and recommend a candidate to the Board. The editor sets overall editorial strategy for the magazine and its website, [ForeignAffairs.com](http://ForeignAffairs.com), and oversees the commissioning, selecting, and editing of all content of the magazine and the website. The editor oversees a ten person editorial staff and is based at the Council's New York headquarters.

 Interested candidates are encouraged to send a brief curriculum vitae to [searchcommittee@cfr.org](mailto:searchcommittee@cfr.org) by March 31, 2010.

 A select number of individuals will be asked to submit a written statement assessing the magazine and outlining ideas for how it might change in the future. Anyone wishing to nominate a candidate for the position should also write to [searchcommittee@cfr.org](mailto:searchcommittee@cfr.org).

The Council on Foreign Relations is an equal opportunity employer and actively seeks candidates from diverse backgrounds.



BANK FOR INTERNATIONAL SETTLEMENTS

The Bank for International Settlements (BIS) is an international financial institution that promotes central bank cooperation and provides banking services to central banks and international organisations. Based in Basel, Switzerland, with representative offices for Asia and the Pacific in Hong Kong SAR and for the Americas in Mexico City, the BIS currently employs staff from some 50 countries.

The BIS is seeking to recruit a

## Senior Economist

for either its head office in Basel, Switzerland, or its Representative Office for the Americas in Mexico City.

Reporting to the Monetary and Economic Department (MED) in Basel, the Senior Economist will be required to undertake high-quality economic analyses on policy topics of interest to central banks in the Latin America and Caribbean region (eg macroeconomic and financial stability, development of financial systems). The Senior Economist will also be required to:

- contribute to the organisation of BIS meetings of central banks in the region;
- conduct analytical work by: (i) contributing to issues for discussion and background notes for BIS meetings; (ii) conducting research on topics of interest to central banks; (iii) keeping up with regional developments and relevant research by central banks, academics or financial sector analysts;
- develop contacts with senior officials in regional central banks in order to: (i) enhance the quality of background notes and research papers; and (ii) enhance the visibility of the BIS in the region; and
- present the findings of analytical work (background notes and research) at research conferences or seminars, particularly those organised by central banks in the region or in which those central banks participate actively and represent the BIS/MED at regional meetings and conferences when needed.

The successful candidate will have:

- A PhD in economics or finance from a university of international standing, or equivalent professional experience acquired over several years
- Working knowledge of and experience in analysing topics of interest to Latin American and Caribbean central banks gained at either a central bank, ministry of financial economics, international organisation, leading academic institution or leading financial firm
- Excellent drafting and presentation skills in English,
- Ideally fluency in Spanish or Portuguese, and a familiarity with emerging market economies, preferably in Latin America and the Caribbean.

The BIS offers attractive conditions of employment in an international environment. Please submit an electronic version of your CV (in English) through the recruitment section of the BIS website at [www.bis.org](http://www.bis.org) by 5 pm CEST, Friday 9 April 2010.



**International  
Finance Corporation**  
World Bank Group

## PRIVATE HEALTH SECTOR SPECIALIST Washington D.C.

IFC, a member of the World Bank Group is a leader in sustainable investment in emerging markets. IFC promotes private sector development and economic growth to reduce poverty and improve people's lives.

Healthcare is one of the pillars of IFC's global strategy. IFC has invested US\$ 1.3 billion in more than 80 healthcare companies in 35 countries, making the Corporation the world's largest investor in this sector in emerging markets. Our projects typically include private hospitals, diagnostic centers, HMOs and primary care providers. IFC's healthcare investments support employment for 55,000 people and treatment of 5.5 million patients per year.

The **Private Health Sector Specialist** will support the development of IFC's health sector strategy, participate in business development activities, assess commercial, operational and service quality aspects of new projects, supervise the portfolio of existing clients, and advise clients on the key elements of their operations and performance.

Candidates are likely to have gained their experience within a large commercial health care organization or consulting company. Requirements:

- Advanced degree in health services management or an appropriate combination of training and experience
- 10+ years of professional experience, including at least 7 years in healthcare management with significant international exposure, ideally in developing countries
- Excellent communication skills in English; knowledge of other major business languages is considered a plus.

The position is based in Washington, D.C. and requires considerable travel to developing countries. IFC offers challenging and rewarding careers and internationally competitive packages. Please go to [www.ifc.org/careers](http://www.ifc.org/careers) for the detailed job description and to apply on-line. Deadline is April 4, 2010.

IFC finances projects that have a positive developmental impact and that comply with high environmental and social standards.

[www.ifc.org](http://www.ifc.org)

## UK ECONOMIST

[barcap.com](http://barcap.com)

We are the investment banking division of Barclays Bank PLC. We operate in over 30 countries and employ more than 20,000 people, providing corporate, government and institutional clients with solutions to their strategic advisory, financing and risk management needs. One of our key passions is the quality of our research, and we are now looking for an experienced UK macroeconomist to join our team in London.

As deputy to the Chief UK Economist, you will be involved in analysing, forecasting and commenting on all aspects of the UK economy, with a particular focus on monetary and fiscal policy. This is a high-profile role, involving frequent interaction with clients and the media.

You will have a strong academic record, with a master's or doctorate in economics, together with specialist knowledge of the UK economy and practical experience of forecasting, gained in a financial institution, government or supranational organisation or research unit. Excellent verbal and written communication skills and a keen interest in financial markets are essential.

We are offering an exceptional opportunity, with a highly competitive remuneration package to reflect the demands and importance of this position. All applications are confidential and will receive a response.

To apply, please contact Clare Kearns at ASL Search and Selection no later than 1st April 2010 by e-mail to [asluk@aol.com](mailto:asluk@aol.com) quoting reference 284/12 or call +44 (0)771 423 1177.



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**The Economist Group****Intern**

The Economist Group is the leading source of analysis on international business and world affairs. We deliver our information through a range of formats, from newspapers and magazines to conferences and electronic services.

Now in its second year, this internship is aimed at graduates or equivalent individuals with a flair for business and a passion for the media. We will take on four interns for six months in our London office starting in June 2010.

This is not an internship in journalism or editorial work. Our interns work hard on real business issues: managing projects, analysing markets and presenting proposals; and you must be able to demonstrate your skills in these areas. If you are successful, you'll work with the organisation's most senior executives including the CEO, Andrew Rashbass. In fact, he will be your formal mentor throughout the six-month placement.

Our business is global, so we are keen to receive applications from anywhere in the world. We'll help with securing a work permit if you need one. You will need to be reasonably fluent in spoken and written English.

You will need to arrange and pay for your relocation to London as well as your accommodation during the internship. We'll pay you £400 a week.

To apply for this internship please go to [www.economistinternships.com](http://www.economistinternships.com), where you can also learn more about the programme and hear from last year's interns. The closing date for applications is April 9th 2010.

**Chief Executive Officer,  
TradeMark East Africa**

Our clients, the Department for International Development (DFID) in partnership with other potential development partners including Denmark, the Netherlands, Canada and Belgium are in the process of establishing **TradeMark East Africa (TMEA)**. TMEA is a not-for-profit organisation that will provide a long term focus on building East African regional integration capacity and a platform for scaling-up Aid For Trade.

TMEA headquarters will be in Nairobi, Kenya with branch offices in each of the other four East African Community (EAC) States and an EAC Secretariat liaison office in Arusha, Tanzania.

In order to ensure that TMEA delivers on its strategic objectives, we now seek to recruit a high calibre, results oriented and self driven professional who will be employed by TMEA to provide leadership and strategic direction in the capacity of **Chief Executive Officer**.

Reporting to the Board of Directors, the Chief Executive Officer will be responsible for developing and implementing TMEA strategy, identifying and appraising new opportunities, engaging with policy level stakeholders on regional trade and integration.

The Chief Executive Officer will possess a minimum of 10 years experience (5 of which should have been gained in Southern and East African countries) in leading and managing economic development co-operation programmes preferably in regional integration, trade facilitation, trade and investment climate reform, transport sector development, and/or institutional reform.

She will be a visionary leader with excellent networking and negotiation skills and a proven ability to develop strong collaborative partnerships and relationships with development partners/donors, high ranking government officials, civil society and private sector organisations.

This is a challenging and extremely exciting role for which our clients will offer an attractive salary and benefit package commensurate with high-level international development experience. The detailed job profile and reference number can be accessed on [www.eastafrica-kpmg.com](http://www.eastafrica-kpmg.com).

If your career aspirations match these exciting opportunities, please write in confidence quoting the position title and reference number on the subject of your e-mail and cover letter on or before **Monday, 5 April 2010 by 4.30pm East African time**. Applications including your curriculum vitae, a working e-mail address, daytime telephone contacts, qualifications, experience, present position, current remuneration, names and addresses of three referees should be sent electronically in PDF file format to: **Executive Selection Division, KPMG East Africa, Nairobi** E-mail: [stdm@africa.kpmg.co.ke](mailto:stdm@africa.kpmg.co.ke)

**This is a re-advertisement: previous applicants need not apply. Only short-listed candidates will be contacted.**

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**The Office of the Body of European Regulators for  
Electronic Communications (BEREC) is seeking to recruit an  
Administrative Manager/Director**

The Office of the Body of European Regulators for Electronic Communications (BEREC), which will be provisionally located in Brussels, is seeking to recruit an **Administrative Manager** who combines a very sound knowledge of telecommunications regulation with excellent management experience.

The BEREC Office provides professional and administrative support to the Board of Regulators consisting of the Heads of the 27 national telecom regulators. BEREC will advise the European Commission and the National Regulatory Authorities (NRAs) and assist the European Parliament and Council on issues related to the application of the EU regulatory framework for electronic communications.

The Administrative Manager will be responsible for heading the Office and taking overall responsibility for up to 28 staff. The tasks include the dissemination of regulatory best practice among NRAs and assisting the Chair of the BEREC Board of Regulators in the preparation of the Board's work.

Candidates must be EU nationals with a university degree and 15 years of full-time professional experience. Professional experience must include 5 years of directly relevant experience acquired in the electronic communications sector. Candidates must also have 5 years of management experience.

Appointment to the post is for three years with a possibility for renewal once.

The Administrative Manager will be appointed to the staff of the Office as a temporary agent at grade AD14 pursuant to Article 2(a) of the Conditions of Employment of other Servants of the European Communities.

**Please see the Official Journal C 53 A of the European Union of 3rd March 2010 (<http://eur-lex.europa.eu>) for further details of the vacancy and how to apply.**

**Closing date for applications: 6th April 2010**

Privacy statement is available at the following address: <http://erg.eu.int/>



**EUROPEAN COMMISSION**

**<http://ec.europa.eu>**



**Greenergy**

Greenergy is one of the top three fuel suppliers in the UK, selling more than 150 million litres of petrol, diesel and biofuel every week to oil companies, supermarkets and bus, haulage and industrial companies.

## Project Manager

We are looking to recruit a Project Manager to support the Head of Infrastructure and Production. This position will be responsible for maintenance and development of physical infrastructure on behalf of the Company, managing all operational aspects of terminals, lease assets and acquisition opportunities.

The successful candidate will be able to demonstrate a proven ability to manage multiple complex, high level projects, sourcing the right

third parties as and when required to ensure each project is executed on time and on budget.

In addition this person will be a qualified engineer with excellent organisational and planning abilities and familiarity with oil industry operations, in particular gasoline and diesel operations, blending, stock management and oil quality parameters.

This role is based out of the London office and involves at least 2-3 days per week at various UK locations.

To apply, please send a covering letter and your CV (detailing your current remuneration package) to [jobs@greenergy.com](mailto:jobs@greenergy.com).

Visit [www.greenergy.com](http://www.greenergy.com) for more details regarding the role and the company.



**International  
Finance Corporation**  
World Bank Group

## SENIOR COMMUNICATIONS OFFICER

IFC, a member of the World Bank Group, is the largest multilateral provider of financing for private enterprise in emerging markets. IFC provides loans, equity, structured finance and risk management tools as well as advisory services to build the private sector in developing countries. On the advisory services side, IFC helps companies sharpen their competitive edge, improve corporate governance, and become more sustainable. IFC also provides advice to national and local governments on how to improve their investment climate and strengthen their basic infrastructure.

Working directly with the Vice President, Advisory Services, the Senior Communications Officer will develop the communication strategy, prepare talking points and speeches, and manage the relationship with the media. He/she will be responsible for all internal and external communication of the Vice Presidency and coordinate the Advisory Services communications network to assure consistent communication across regions and business lines. Minimum requirements:

- Advanced university degree and 10+ years' experience working in media relations, public affairs, or shareholder engagement
- Ability to think strategically, deal with complex issues and provide quality work under time pressure
- Background in finance and knowledge of international development issues are of advantage
- Superior communication skills in English; candidates with additional language skills in one or several major business languages are preferred
- Demonstrated success as a team leader in a multi-cultural environment

The position is based in Washington, D.C. IFC offers challenging and rewarding careers and internationally competitive packages. Please go to [www.ifc.org/careers](http://www.ifc.org/careers) and browse for Current Opportunities for the detailed job description and to apply on-line. Deadline is April 4, 2010.

IFC's vision is that people should have the opportunity to escape poverty and improve their lives.

[www.ifc.org](http://www.ifc.org)

unite for  
children

unicef

## Chief, Policy Advocacy, P-5

Location: New York, United States of America

Closing Date: 2 April 2010

If you are a committed, creative professional and are passionate about making a lasting difference for children, the world's leading children's rights organization would like to hear from you.

Under the overall guidance of the Associate Director PAKM, you will be responsible for the coordination, planning, development and management of UNICEF's policy advocacy, in particular in the area of social and economic policy. Keep UNICEF on the cutting edge of policy advocacy approaches and use this knowledge for promoting evidence-based advocacy. Coordinate the design and implementation of UNICEF's publication strategy for social and economic policy. Support social and economic policy products, including the elaboration materials for UNICEF advocacy, exercising quality assurance of knowledge products, consultative processes to collect innovative and forward-looking ideas; identifying appropriate academic institutions, think-tanks, foundations and eminent persons to serve as contributors; supporting advocacy events.

Together with Policy, Advocacy and Knowledge Management Section senior staff, monitors policy developments and supports the section in creating a strategic approach to its advocacy in its key areas of work.

**Qualifications:** Advanced University degrees in Economics or related Social Science. Fluency in English is required.

**Experience:** Ten years of professional work experience at the national and international level in development, policy research and advocacy. A significant track record of publications/advocacy related materials a must.

Visit us at [www.unicef.org/about/empjoy](http://www.unicef.org/about/empjoy) to register in our new e-Recruitment system and to apply to this vacancy, quoting E-VN-2010-000415.

Please note that only candidates who are under serious consideration will be contacted.

In the selection of its staff, UNICEF is committed to diversity and gender equality and without distinction as to race, sex or religion, and without discrimination of persons with disabilities: Women, nationals of developing countries, and all well qualified candidates are strongly encouraged to apply.

unite for  
children

unicef

## Principal Officer, Programmes, D-1

Location: New Delhi, India

Salary (gross/annum): \$ 179,470 circa

and applicable standard UN benefits and entitlements

Closing Date: 5 April 2010

If you are a passionate and committed professional and want to make a lasting difference for children, the world's leading children's rights organization would like to hear from you.

The United Nations Children's Fund (UNICEF) seeks a dynamic individual to provide leadership, coordination, advice and management of the India Country programme of cooperation to improve the status of women and children in India. You will also provide advisory support and guidance to the management of Programmes in thirteen field offices.

You will assist the Country Representative in advocating for Child Rights both a national and state level, liaising directly with appropriate ministries. You will manage the preparation of the Country Programme, as well as its periodic reviews, ensuring the development of strategies based on national development plans, and securing government commitment. You will also assist the Country Representative in external relations activities including mobilization of resources and fund-raising. You will also be responsible for the management of Programmes in the areas of Child Survival and Development, Rights, Protection and Participation, formulating effective advocacy strategies to assure sustained programme delivery.

We are seeking a passionate and committed leader with excellent analytical and communication skills, as well as the capacity to negotiate and advocate.

**Qualifications:** Advanced university degree in management or development planning, with specialization in either: health, education, nutrition, child development, project planning.

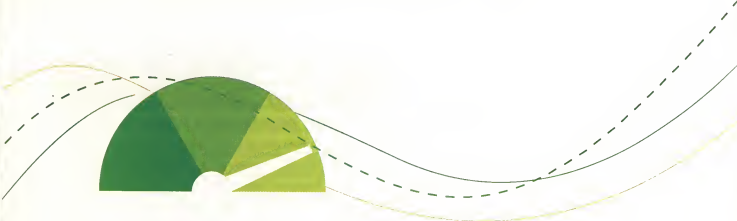
**Experience:** Thirteen years of professional work experience at international level in the development and management of social programming in developing countries. Extensive managerial experience highly desirable.

To apply, please send your application, and accompanying letter, updated Curriculum Vitae as well as a duly completed United Nations National History form (available at our Web site at [www.unicef.org/empjoy](http://www.unicef.org/empjoy)) quoting "VN-10-001" to [recruit.SSR@unicef.org](mailto:recruit.SSR@unicef.org)

For additional information on UNICEF, visit [www.unicef.org](http://www.unicef.org)

UNICEF is a non-smoking working environment. Applications from qualified women are encouraged.





# What if saving a lot of energy didn't take a lot of your energy?

BP strongly encourages energy efficiency and conservation. So we've created the BP Energy Lab, a new tool to help you become aware of your everyday energy consumption. With it, you can easily calculate your annual household energy usage and carbon emissions, and get tips on reducing both. In only a few seconds, you'll find out where your energy is going, so you can take control of how much you consume. Visit [bp.com/energylab](http://bp.com/energylab) to get started.



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natural gas



wind



solar



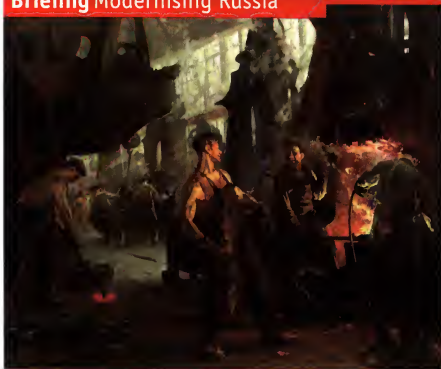
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## Another great leap forward?

MOSCOW

Modernisation is hard to argue with. But it may not be what Russia needs

IMAGINE a town or settlement of 30,000 people, probably near Moscow. Its high-tech laboratories and ultra-modern glass houses make California's Palo Alto look ancient. It has a greater concentration of scientists than anywhere else in the world. The atmosphere in the town is free, cosmopolitan and creative, almost anarchic at times. Police harassment is minimal, "at least to start with". Riff-raff and drunks from surrounding villages are kept away by tight security.

The streets are clean, and shops are stuffed with organic food to stimulate the brain. Here, in this exclusive "zone of special attention", the state is extracting creative energy from Russian and foreign scientists that is driving the country along the path of modernisation and innovation.

This is not a parody, but a government plan outlined by Vladislav Surkov, the Kremlin's chief ideologist, in a recent interview given to *Vedomosti*, a Russian business daily. It was entitled: "The miracle is possible". The miracle Mr Surkov talks about is transforming the Russian economy and generating new technologies, where Russia lags badly (see chart) on next page—and all without touching the foundations of the Russian political system.

Modernisation was the slogan proposed by Dmitry Medvedev, Russia's presi-

dent, in an article last September called "Russia Forward!", published on a liberal website. "Should we drag a primitive economy based on raw materials and endemic corruption into the future?" Mr Medvedev asked rhetorically. While admitting a vast array of problems, from economic weakness to alcoholism, he painted a picture of a Russia with nuclear-powered spaceships and supercomputers. In short, if Russia managed to modernise, it would once again become a world leader.

Although Mr Medvedev's article was dismissed by critics as a mere simulation of action, it inspired lively debate among the elite. Even those who suspected the slogan was fake found they could not disagree with it. Thus discussion focused on different ways to modernise, but did not question the goal itself. The Kremlin had imposed its own agenda.

Liberal critics quickly pointed out that modernisation in Russia is impossible without political liberalisation and institutional change. A country with weak property rights and a rent-seeking bureaucracy, they argued, can invent new ways of extracting bribes and robbing businesses, but not of creating intellectual wealth. Most recently Mikhail Gorbachev, the last Soviet leader, said modernisation was impossible without democratic reforms.

Yet the experience of Mr Gorbachev's *perestroika*—which started with talk of technological renewal but ended in the collapse of the Soviet system—has persuaded the Kremlin to define modernisation strictly within technological boundaries. Hence Mr Medvedev's warning not to rush political reforms. His supporters argue that only authoritarian government is capable of bringing the country into the 21st century. "Consolidated state power is the only instrument of modernisation in Russia. And, let me assure you, it is the only one possible," Mr Surkov told *Vedomosti*.

### In Stalin's shadow

In Russian history, it is Peter the Great and Stalin who are considered the great modernisers rather than Alexander II, who abolished serfdom, or Mr Gorbachev, who opened up the country. Brutality trumps mild liberalisation. In his article, Mr Medvedev described Stalin's bloody policies as unacceptable. Yet the idea that a top-down modernisation is the only option available to Russia still dominates the minds of its rulers.

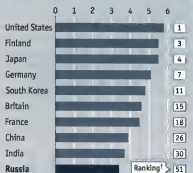
"We are lagging behind the leading countries by some 50-100 years. We must cover this distance in ten years...[This requires] a party sufficiently consolidated and unified to channel all efforts in one direction," Stalin wrote in 1931. As Andrei Zorin, a historian at Oxford University, explains, the efforts of Stalin and Peter the Great involved the forced creation of an educated class capable of generating, or at least replicating, the best Western innovation. Mr Surkov's science town has less in common with Palo Alto than with the closed Soviet research towns that mostly grew out of the gulag system.

In the 1930s leading Soviet engineers arrested by Stalin laboured in special prison laboratories within the gulag. After the war, when Stalin required an atomic bomb, a special secret town was established where nuclear physicists lived in relative comfort, but still surrounded by barbed wire. Subsequently hundreds of secret construction bureaus, research institutes and scientific towns were set up across the Soviet Union to serve the military-industrial complex. They also spawned a technical intelligentsia. In the 1980s it was this class of educated people—permitted more freedom and better food than the rest of the country, but still poorly paid and not allowed to go abroad—that became the support base of *perestroika*. But it was also this class that was hit by the market reforms of the 1990s.

"They supported us in 1991 and most of them got nothing out of our reforms," admits Anatoly Chubais, who, as Boris Yeltsin's chief man in charge of privatisation, devised and implemented them. These days Mr Chubais heads a state corporation charged with incubating nanotechnology. ▶

## Out of ideas

Innovation score\*, 2008



Source: World Economic Forum "Global Competitiveness Report 2009-10"

\*7-step score  
Out of 133 countries

gies, a project central to the Kremlin's modernisation effort, and is going to be in charge of building the Kremlin's Silicon Valley. He argues that the time has come to empower the technical intelligentsia again, recreating a social class that will in time demand liberalisation and become, as it did in the 1980s, a catalyst of change. "The moment they become part of the Russian economy, they will become part of Russian political life," Mr Chubais says.

Mr Zorin says this kind of social engineering is the key to understanding today's problem. An authoritarian regime creates an educated class which becomes emancipated from the state because of its intellectual superiority; it then undermines the state, and often gets buried in its wreckage. The problem, says Mr Zorin, is that this class cannot live on its own. "It can be in conflict with the state, but it cannot exist without it." The second problem is that the modernisations of both Stalin and Peter the Great were driven by clear military goals. It is much harder, in an innovative economy today, to tell scientists what they should be inventing.

## Khodorkovsky's lament

In order to modernise Russia, Mr Chubais argues, political liberalisation is desirable, but not essential. Fixing the tax code or amending customs law is equally important. After all, autocratic regimes like Singapore, South Korea and, above all, China, have leapt forward without liberalising. Yet as Vladimir Ryzhkov, a liberal Russian politician, points out, to go the way of Singapore you need at the very least strong property rights, the rule of law, competition and the ability to fight corruption. Russia has none of these.

Yegor Gaidar, a reformer and Mr Chubais's long-time friend, spelled out Russia's predicament in a book published shortly before his death last December. The end of socialism, he wrote, does not automatically create a competitive free market, but can lead, as it has in Russia, to a dangerous ver-

sion of capitalism where the bureaucracy considers the state its property and uses its mechanisms for personal enrichment.

Russia's ruling elite, which consists of a corrupt bureaucracy, the security services and a few oligarchs, lives off the rent from natural resources or administrative interference in the market. Competition and the rule of law undermine this arrangement. Corruption (see chart 2) holds it together, and ensures the loyalty of the bureaucracy.

The conflict between real modernisation and the vested interests of this bureaucracy is summed up in the fate of Mikhail Khodorkovsky, once Russia's richest man and now its most famous political prisoner. Mr Khodorkovsky replied to Mr Medvedev's manifesto with one vital question: "If the political decision about modernisation is made in today's Russia, who is going to carry it out?"

Clearly neither the corrupt bureaucracy nor the security services can do so. What is needed, Mr Khodorkovsky wrote, is "a whole social stratum—a fully fledged modernising class which sees modernisation as a question of survival and fulfilment in their own country." In fact, it was precisely this class of people that Mr Khodorkovsky represented and which he tried to foster when he financed boarding schools for orphans, computer classes for village schools and civil-society programmes for journalists and politicians. That was why he was a threat to the system.

Mr Khodorkovsky's other problem was that he behaved as a private owner of his vast oil company, refusing to accept the supremacy of the state bureaucracy. The subsequent expropriation of Yukos by the bureaucrats has turned Mr Khodorkovsky into a symbol of property rights, just as Andrei Sakharov became a symbol of human rights in the Soviet Union.

As Mr Gaidar argued, if modernisation of the country were a real priority, the state would have to clear social and economic space for the development of society, which would in turn mean ceasing to raid

businesses and concentrating on its key tasks: education, health care and helping the poor. There is little sign of this. In fact, both Vladimir Putin, the all-powerful prime minister, and Mr Medvedev have been fostering the cult of the state as the only force capable of making Russia great and respected once again.

Mr Medvedev's September manifesto marks no break with Mr Putin's legacy. Quite the opposite. So long as Russia's economy was growing, consumer choice and stability gave the state legitimacy. Now that the crisis has revealed how weak the Russian economy is, modernisation provides a new justification for the state's existence. The state is essential in either case. Modernisation is at best a cover-up for preserving the status quo, and at worst a way of siphoning off more public money.

Nonetheless, an unprecedented public discussion has now started about what the country's priorities should be. Under cover of that debate, the Institute of Contemporary Development, a think-tank close to Mr Medvedev, has published an essay calling for the restoration of regional elections, respect for the constitution, and the elimination of state-affiliated companies and the federal secret police. The authors have little faith that the Kremlin will take up their suggestions. Mr Putin, not Mr Medvedev, pulls all strings there. But they feel that even limited discussion about the subject is better than none.

The debate has also revealed great discontent with the present political system among the business elite. At a recent forum in Krasnoyarsk for economists, business bigwigs and politicians, including some members of the pro-Kremlin United Russia party, there was agreement that the state is not ready to negotiate with, let alone be controlled by, society, and that existing institutions are just a device for the redistribution of property. Without proper political competition, Russia is destined to waste its resources and cannot modernise.

The main question for Russia, however, is not how to achieve that. The problem is that to vault modernisation, which implies that technological successes will make Russia a great world power again, is to set the wrong priority. Learning to live as a post-imperial state according to its means, rather than its ambitions, and learning to show more care for human life and dignity, are more important to Russia's renewal than winning a geopolitical race.

Mr Surkov is quite right when he argues that democracy would not stimulate technical innovation. The reason for this, however, is that under democracy a country with a declining population, a frighteningly high rate of birth defects, crumbling infrastructure and deteriorating schools might find a better use for taxpayers' money than pouring it into Mr Surkov's Silicon Valley dreams. ■

## The grubby end

Corruption perceptions index, score\*



Source: Transparency International

\*10 = lowest perceived corruption  
Out of 180 countries

Fast, elegant, and  
responsive. And that's  
just their email.

Jaguar Land Rover has  
gone Google.

"Going Google" means switching your business to Google Apps: an online email, calendar, and document program that's based on the web. Learn more at [www.google.com/gonegoogle](http://www.google.com/gonegoogle).

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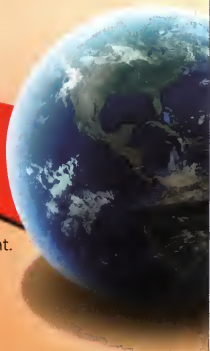
reducing expenses...



CO<sub>2</sub> emissions...



and the impact on our environment.



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## Foreign policy

## Containing Iran

WASHINGTON, DC

**The president is trapped between an angry Congress and a stubborn China**

HE HAS missed his own deadlines, he may not have enough votes and even if the measure passes it is likely to be a watered-down affair. That is the position in which Barack Obama finds himself not only on health reform but also in his efforts to prevent Iran from acquiring a bomb.

As with health care, Mr Obama entered office with a bold idea. He would break with his predecessor and extend the hand of friendship to Iran. If Iran failed to grasp it or to come clean about its nuclear activities, the world would know whom to blame for the continuing enmity between the two countries. That would enable the UN Security Council to impose a fourth lot of economic sanctions—"crippling" ones this time—that would force the ayatollahs to comply with their nuclear obligations.

Mr Obama's offer to engage got off to a good start. In Geneva last October the Iranians seemed to promise to ship most of their nuclear stockpile to Russia for a while, allaying fears that they could soon enrich enough uranium for a bomb. Later they reneged—but in doing so they upset Russia, making it more receptive to the American-led push for new sanctions.

China, however, remains to be convinced. Two American officials—Jeff Bader from the White House and Jim Steinberg from the State Department—have just visited Beijing to press for a new resolution. America is in a hurry. It wants action in the Security Council before Lebanon (where

Iranian influence is strong) takes up the chairmanship in May and a distracting Nuclear Non-Proliferation Treaty (NPT) review conference starts in New York.

A senior administration official claims that Mr Bader and Mr Steinberg had "good discussions" in Beijing: like America, China has an interest in a stable Gulf and does not want a nuclear-armed Iran. But diplomats from other Western countries report the Chinese as saying they oppose new sanctions so long as there is "even a 1% chance" of further dialogue (an illusion the Iranians are masters at conveying). And although China has an aversion to using its veto alone in the Security Council, its growing self-confidence as a great power suggests that it might do so now. Even if China relents, it will probably make sure that any new sanctions approved by the UN are far from crippling.

At the same time as he prods the stubborn mule that is China, however, Mr Obama is also struggling to curb the angry stallion that is Congress. Anti-Iranian sentiment on Capitol Hill was already inflamed by the Holocaust-denying rhetoric of President Mahmoud Ahmadinejad but has reached fever-pitch since the regime's clampdown since June on the pro-democracy green movement.

Democrats and Republicans alike are championing to tighten America's own sanctions on Iran. The White House has been pleading for time—first to give engagement

a chance and lately to avoid complicating efforts in the Security Council. Now the Hill's patience has run out.

Although the White House denies that it is out of sync with Congress, Kenneth Katzman of the Congressional Research Service said this week that Congress was in a "ferment" to find "every which way" to squeeze the Iranians. The pressure is bipartisan: sponsors of sanctions resolutions include John McCain, a Republican senator, and Howard Berman, a House Democrat. One pair of bills would punish all firms, including foreign ones, that sell petrol or refining equipment to Iran (Iran is short of refining capacity). Other proposals range from targeting individuals involved in human-rights abuses to making regime change official policy.

Blunt instruments like this could shatter Mr Obama's careful efforts to corral foreign allies and show Iranians that America is worried about their regime's nuclear delinquencies, not hostile to Iran itself. But Mr Obama faces a tricky calculation. Some State Department advisers tell him that too much pressure will provoke Iran to retaliate in Afghanistan (which Mr Ahmadinejad visited this week), with troubling consequences for the war on which the fate of his presidency may ultimately hang. But even friendly pollsters such as Stanley Greenberg and James Carville are picking up signs that the president is becoming vulnerable on national-security issues. Sarah Palin has helpfully urged him to "toughen up" and declare war on Iran.

On health reform, the Democrats may yet summon the votes they need in Congress to snatch victory out of defeat. The same could happen in the Security Council with Iran. But what then? Having promised new sanctions if engagement failed, imposing them has become both a political necessity for Mr Obama and one of the ▶▶



► few ways short of war the world can apply pressure to Iran. Even so, few policymakers in Washington expect sanctions alone to end the regime's nuclear ambitions. Some of America's Iran-watchers are therefore advocating a longer game.

Karim Sadjadpour of the Carnegie Endowment for International Peace has been dusting down the article George Kennan wrote from Moscow under the pseudonym X in 1947, calling for "patient but firm and vigilant containment" of the Soviet Union. One unintended consequence of Mr Obama's extended hand was to aid the rise in Iran of a resilient democracy movement. Better now to encourage the opposition and wait for the regime to implode, says Mr Sadjadpour (he doesn't expect to have to wait 40 years), than to concentrate only on the centrifuges spinning in Natanz. Mr Obama might think so, too—if only he could live with the idea of Iran going nuclear on his watch. ■

### The president and trade

## Go sell

CHICAGO AND WASHINGTON, DC

As Barack Obama embraces exports, trade friction looms

A GLOOMY office park in suburban Chicago is the home of NewMedical Technology. At the moment the young company has only one main product, silicone strips to reduce scarring after surgery. But in its tiny warehouse, employees busily pack boxes to be shipped to Brussels. In the past year the firm's business has expanded quickly; NewMedical now exports to South America, Europe and Asia.

It is the type of growth Barack Obama dreams of. Consumers are nursing battered balance sheets and the government is wallowing in debt. That puts the burden on exports to carry the recovery; Mr Obama wants them to double over the next five years.

On March 11th, as *The Economist* went to press, the president was rolling out a batch of initiatives to help the process along. The most significant responds to complaints that national security controls interfere with exports. The current system will be replaced with a one-time notification. The review time would drop to 30 minutes from the current one-to-two months for 85% of the 3,300 affected products. Standards governing how exporters allow foreigners to handle products with potential military applications will be simplified. The Export-Import Bank's authorised financing will rise, with special attention to small companies like NewMedical. Gary Hufbauer of the Peterson Institute

### White House tensions

## Ballet Rahmbert

WASHINGTON, DC

The gossip surrounding the president's chief of staff is getting out of hand

"LET me tell you a story about Rahm Emanuel. I was a congressman in my first eight weeks, and I was in the congressional gym, and I went down and I worked out and I went into the showers. I'm sitting there showering, naked as a jaybird and here comes Rahm Emanuel not even with a towel wrapped around his tush, poking his finger in my chest, yelling at me because I wasn't going to vote for the president's budget. Do you know how awkward it is to have a political argument with a naked man?"

So, on television on March 8th, said Eric Massa, a Democratic congressman from New York who faced a spot of bother in Congress after allegations of groping a male staffer and has now resigned. Sources in the White House say the encounter with Barack Obama's chief of staff never happened. No matter. True or not, the story is in character. Mr Emanuel is famous for being the president's most pugnacious panjandrum and congressional and media manipulator, and proud of it to boot. Just as Britain's affable Tony Blair took care to keep a foul-mouthed master of dark arts, Alastair Campbell, at his side, so is it the calling of Mr Emanuel to bludgeon underlings at the White House and former colleagues in Congress into obeying his master's commandments.

Which was fine, so long as the bludgeoning produced. In Mr Obama's first year, the White House looked as cool and disciplined as the president himself. Lately, however, voters and Congress have veered off message, electing a Republican senator in Massachusetts and threatening to drive a stake through the health reform Mr Obama had put at the heart of his first term. An iron law of politics holds that at times of political unravelling the fixer becomes the scape-

goat and the planter of stories turns into the story itself. Fed by leaks galore, the newspapers have lit up with tales of rifts great and small between Mr Emanuel and his colleagues. Even the grey lady is bestirring herself: the New York Times this week ran an article of nearly 8,000 words on Mr Emanuel and his woes.

In hard times, friends fall out. And Mr Emanuel, who worked in the Clinton White House, has never been as close to the president as David Axelrod and Valerie Jarrett and the rest of the Chicago coterie who campaigned with Mr Obama. Mr Emanuel's enemies blame him for trimming the president's ambitions. His defenders say it is a pity Mr Obama did not heed his chief of staff's warnings against overreach. As to the inevitable question of whether Mr Emanuel will manage to keep his job, you read the answer here first: if health reform survives, so will he.



Nothing succeeds like success

notes that America's export financing has shrunk dramatically, from 25% of relevant merchandise in the 1970s to 3%. More symbolic steps include naming an "export promotion cabinet" and reactivating a private sector advisory board on trade, chaired by the chiefs of Boeing and Xerox.

How much difference will this make? Exports are unlikely to double; in 60 years the only time that has happened is when inflation was puffing up the figures. Yet exports seem bound to grow since the rest of the world is growing faster than America and the dollar is weak. The trade deficit shrank last year, because exports fell less

than imports (see chart on next page).

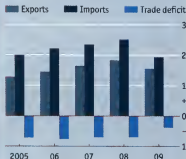
The administration is trying to get more companies to export: less than 1% now do, and of them 58% export to just one country. Yet getting small firms to export more won't help the economy much in the near term, says Matthew Slaughter of Dartmouth College. The big firms that export most of America's goods don't need promotion, they need better access.

Mr Obama has expressed more support lately for completing free trade agreements with Panama, Colombia and South Korea, the Doha round of world trade talks, and the Trans Pacific Partnership, but that ►►



## Thank the dollar

Goods and services, \$trn



Source: US Department of Commerce

► has not translated into results. Only the Panama deal is likely to be done soon; progress on the others has slowed to a crawl over Democrats' concerns about violence against unions in Colombia and America's inability to sell more cars to South Korea.

Ron Kirk, Mr Obama's trade representative, knows that whatever their economic merits, trade agreements need political support. He sought to make Dallas "the capital of NAFTA" when he was its mayor. But his wife comes from a family of auto-workers and he knows that "as much fun as it is to go to Geneva, the battle for free trade will be won in Detroit." The affable Mr Kirk says at least the South Korea and Colombia deals have vocal domestic advocates urging progress. "There is no one knocking on my door saying they're excited about moving Doha forward," he says.

It doesn't help free trade that Sander Levin, a congressman from Michigan closely allied with trade unions, has just become chairman of the House of Representatives committee overseeing trade (though the Cato Institute, a libertarian think-tank, reckons Mr Levin's voting record on trade is much the same as that of Charles Rangel, the outgoing chairman).

Given the miserable state of the world economy, protectionist pressures have been remarkably quiescent. In the United States, Mr Obama's foolish tariff on Chinese tyres has, thankfully, yet to trigger a flood of imitations.

Yet dangers loom. Mr Obama has stepped up his criticism of China's fixed exchange rate. A group of senators has urged him to side with a paper company that wants the Commerce Department to treat China's pegged currency as a subsidy subject to countervailing duties. Separately, speculation is mounting that the Treasury will label China a currency manipulator, a step it twice declined to take last year. Brazil is about to impose tariffs on American goods after the World Trade Organisation ruled America unfairly subsidises cotton. With employment still shrinking and the mid-terms approaching, free trade faces a rocky path ahead. ■

## The film business

## Hollow-wood

LOS ANGELES

The sign is still there, but the film crews increasingly aren't

MORE than 4m Americans tuned in on March 7th to watch "The Hurt Locker" win the award for best picture at the Oscars, the annual ritual of glitz that reminds the world that Hollywood is the global centre of the film and entertainment industry. "The Hurt Locker", however, was filmed in Jordan, not Hollywood. Perhaps that is as it should be for a film set in Iraq. But what about "Battle: Los Angeles"? Hitting cinemas next year, it is a film about marines fighting an alien invasion. And it is being shot in Louisiana.

California has been worrying about "runaway production" since 1998, when Canada began luring producers and their crews away from Los Angeles with tax breaks. Other places followed, and all but seven American states and territories and 24 other countries now offer, or are preparing to offer, rebates, grants or tax credits that cut 20%, 30% or even 40% of the cost of shooting a movie.

These incentives have become a huge factor in choosing where to shoot a film. Hollywood types are used to going on location, says Amy Lemisch, the director of the California Film Commission, a state body that tries to retain film production. These days, she says, producers first compare the incentives offered by the different locations and only then look at their scripts to see which of the places on the shortlist make sense. California's world share of studio films (ie, those made by the six biggest studios) dropped from 66% in 2003 to 34% in 2008, she estimates, and has fallen further since then.

The decline in movie-shooting would

have been even faster if California had not, last July, also got into the game of giving out incentives. Ten feature films which would otherwise have been made outside the state were filmed in Los Angeles in the second half of 2009 purely because of this financial aid. But California's incentives are relatively modest, says Ms Lemisch, and are set to expire in 2014.

It may seem strange that even states with budget crises, such as Michigan, New York or California, choose to make their deficits worse with such giveaways—and in Michigan the tax credits have indeed become controversial. But states and countries are enthusiastic about hosting film crews, for good reason. With no factories to build, the economic benefit is instantaneous. Jack Kyser at the Los Angeles County Economic Development Corporation estimates that the average film (with a budget of \$32m) leads to 141 jobs directly, from caterers to make-up artists, and another 425 jobs indirectly. And it generates \$4.2m in sales taxes and income taxes.

Even with its film schools and armies of cameramen and extras, therefore, Hollywood is not quite as unshakable as it once thought. The business of film-making may split, says Ms Lemisch, with the lawyers, agents and other suits staying in their Brentwood and Bel Air villas, and the crews decamping. Every time a film is shot in another state, moreover, the locals pick up skills that make subsequent shoots easier. In a sign of how desperate Los Angeles is becoming, the city is now considering offering its most treasured resource to crew members at no charge: parking places. ■



Some have left Earth altogether

## Alabama's economy

## After cotton

CALVERT AND HUNTSVILLE

Alabama's small cities are poised for recovery

TUCKED between the Tombigbee river and a rural highway meandering north from Mobile sits a warren of huge buildings in Willy Wonka-colours: sea-foam blue and green, desert beige and mauve. Though they look like a modern-art installation, in fact they comprise a new steel mill being built by ThyssenKrupp, a German company. According to ThyssenKrupp the \$3.7 billion mill represents the largest German investment in America ever. When it reaches full capacity in 2012, it will employ 2,700 workers and produce some 5.3m tons of carbon and stainless steel per year.

In a ranking of 378 American metropolitan areas by job-growth prospects conducted by Moody's Economy.com, Mobile ranked 12th. Three regions in Alabama finished above it: Huntsville and Auburn-Opelika ranked first and second, and Columbus-Phenix City, which straddles the Georgia border, ranked seventh (the state's two largest cities, Birmingham and Montgomery, ranked 83rd and 22nd). These areas are quite diverse: Huntsville benefits from an aerospace and defence legacy, as well as from military base realignments that will centralise several commands in the area; Mobile has ThyssenKrupp's plant as well as continued recovery from the effects of Hurricane Katrina; Auburn-Opelika has Auburn University, recipient of some \$47m in stimulus money; and Phenix City abuts a large Kia plant in Georgia and is near Fort Benning, also due to grow thanks to base realignment.

Yet these cities share advantages common to Alabama: low utility costs, property taxes and corporate income-tax rates; a good workforce-training organisation; and

an aggressive economic-development organisation. Since 1993, when Mercedes built its first passenger-vehicle plant in the United States in Vance, Alabama, the state has focused on attracting foreign-owned companies, of which it now has over 300.

In Huntsville, at the other end of the state from Mobile, is the country's second-largest research-and-technology office park, home to 285 companies, including the Hudson Alpha Institute, a genomic research complex; Aegis Technologies, responsible for the three-dimensional geospatial models of Vancouver and Beijing used in American Olympic broadcasts; and CFP Research Corporation, which pioneers military technology such as insect-mounted cameras and glucose-based batteries.

The park sprawls across a few thousand acres that were once cotton fields; indeed, cotton still grows on undeveloped land across from Hudson Alpha. But Huntsville stopped being cotton country in 1950, when Werner von Braun, a German physicist and engineer, came to Redstone Arsenal, an army base, with his team to jump-start America's missile and rocket programmes. Today Huntsville boasts 57 foreign companies from 15 countries, and Redstone houses the army's missile, missile defence and aviation programmes. Eat your heart out, Birmingham. ■

## Corruption on the border

## Assets on the other side

EL PASO

Mexico's drug gangs are getting ever more clever

ONE case that sticks out, says Jay Abbott, is that of Margarita Crispin. Mr Abbott is the assistant special agent in charge of the FBI's El Paso bureau, and Ms Crispin was a customs agent working at the busy port of entry between El Paso, Texas, and Ciudad Juárez, in Mexico. The FBI had been tipped off in 2004 that Ms Crispin was crooked, so they started to watch her. Once, in 2006, a van ran out of petrol in her lane, and the driver ran away. It turned out that there was almost 6,000 pounds (2.7 tonnes) of marijuana inside. The next year the FBI had enough evidence for an indictment. The strange thing, says Mr Abbott, was that Ms Crispin had no interest whatsoever in a plea bargain. He reckons the Mexican drug-traffickers had made it clear to her that giving evidence against them would not be a wise move.

Was the Crispin case an aberration, or a sign of things to come? Most of America's foreign-grown marijuana comes from Mexico, and most of the cartels' profits



Smells funny

come from the American market. In a speech last March the Mexican president, Felipe Calderón, argued that there was evidence of vexing hypocrisy: "How can you account for such a large drug market in the US, the biggest in the world, without corruption of American authorities? I'd like to know which high-ranking officials, like the ones I've put in jail, have even been investigated there."

The most recent statistics from the Drug Enforcement Administration show that seizures of marijuana have soared in recent years, from some 357 tonnes in 2007 to 661 in 2008. This presumably reflects improved border security, particularly along the more isolated stretches of the border. And it suggests why a corrupt American agent is an increasingly valuable asset. As it becomes harder to smuggle through the desert, the legitimate ports of entry become a more attractive avenue.

Corruption does not have to be widespread to matter. Individual officers have enormous discretion at the ports of entry. They make the call about whether a truck should be waved through the lane or diverted for secondary inspection, often in a matter of seconds and based on nothing more than a quick look and their practised intuition.

Corruption is often blamed on *plata o plomo*—meaning silver or lead, bribes or threats. This seems to have applied in the Crispin case. But for the most part, American agents are less vulnerable to physical threats. The drug gangs are anxious to avoid creating spillover violence, which would invite more attention from the American side. Some experts say that the American formulation is more like *plata o sexo*, or both. Scott Stewart of STRATFOR, a global intelligence company, recalls a case in which an agent was taking bribes from the drugs people to buy gifts for his girlfriend, who was herself a honey trap.

Few investigators will venture an estimate about the prevalence of corruption in ►►



*Pound your fist here.*



*Notice how you can feel the impact all the way through your hand? That's because your body naturally transfers energy from one part to another. This is similar to how the Advanced Compatibility Engineering™ (ACE™) body structure works. It enhances occupant protection in a frontal collision by transferring the crash energy throughout the front of the vehicle and around the cabin. This reduces the forces transferred to the passenger compartment — and the people inside it. The ACE body structure in the Acura TL. The most innovative thinking you'll find, you'll find in an Acura. To learn more, visit [acura.com](http://acura.com).*



The picture painted by GDI throughout the downturn is one of an economy substantially weaker than indicated by GDP: one more in line with the employment data and with the experience of most Americans. But whether productivity or unexpectedly weak growth is to blame for high unemployment, there is a danger that policymakers have failed to recognise the full extent of the slack in the economy. The result may be a disappointingly slow, fragile and jobless exit from recession. ■

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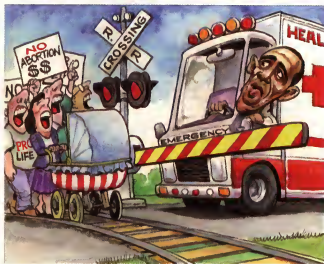
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# Lexington | Barack Obama's abortion drama

Religion is causing the president headaches



IT COULD all come down to abortion. Health-care reform hangs in the balance. Nancy Pelosi, the speaker of the House of Representatives, is desperately trying to round up the last few votes. If the House passes a bill the Senate passed in December, it can then be tweaked through the "reconciliation" process and sent to President Barack Obama for signature. But every single House Republican is likely to vote no, so Ms Pelosi needs 216 Democratic votes (out of 253) for a majority. This is proving surprisingly hard. Among the holdouts are a dozen or so pro-life Democrats, several of them Midwestern Catholics, who object to the abortion provisions in the Senate bill.

Thanks to the Supreme Court, abortion has been legally protected since 1973 and neither Congress nor any state has the power to ban it. But a law called the Hyde amendment bars federal funding for abortion, except in cases of rape or incest, or to save the life of the mother. The question now is whether Obamacare will use taxpayers' money to subsidise abortion more widely. Mr Obama insists that it will not. Under his plan, many individuals and small businesses will buy subsidised health insurance through state-sponsored exchanges. Under the Senate bill, they would only be able to obtain abortion coverage through these exchanges if they paid for it with a separate, unsubsidised, cheque. Thus, federal dollars would be kept out of abortion clinics, say the bill's supporters. But many pro-lifers are not convinced. So the version of the health bill that was passed by the House would have required those who wanted abortion coverage to buy a completely separate insurance policy. The Democrat who wrote the House abortion provision, Bart Stupak, says he won't back the Senate bill. Several other pro-life Democrats may also balk.

As a candidate, Barack Obama spoke of soothing the rage that abortion arouses. He promised to seek common ground between the two sides, for example by trying to reduce the number of unplanned pregnancies. But there is only so much common ground between those who think abortion is a fundamental right and those who deem it murder. And since Mr Obama came to power, attitudes have grown less permissive. While a plurality (47%) of Americans still believe that it should be legal in most cases, nearly as many (44%) believe that it should not. Such views are heavily influenced by religion: 71% of white evangelicals but only 25%

of religiously unaffiliated Americans would ban it.

The debate about gay rights is less bitter. In recent years, 15 states plus the District of Columbia have recognised some form of gay marriage or civil union, and Mr Obama wants to allow gays to serve openly in the military. Plenty of conservatives oppose these changes, but they are losing the argument. It is hard to claim that gays are out to destroy the traditional family when they are trying to join it, or to condemn them for trying to serve their country. Gay rights fit comfortably into the American tradition of individual rights, in a way that abortion does not, since the rights of mother and fetus clash. This may be why gays are making rapid gains, while advocates of abortion rights are not.

More broadly, Mr Obama's health-care travails are a reminder that the culture wars still rumble on. Religion may have receded as an electoral issue, largely because the economy is so wretched, but it could easily return. White evangelicals remain the most reliable Republican voting block, and their views affect the party's platform. Only 23% of them accept that there is solid evidence of man-caused global warming, for example; about as many as believe in evolution. Democrats believe some odd things, too: a recent Pew poll found that they were roughly twice as likely as Republicans to believe in reincarnation, spiritual energy and astrology. But such beliefs have few political consequences. Democrats have not yet tried to spread the idea that voting Republican will ensure that you come back as a cockroach.

## The power of prayer

Jobs may be more on voters' minds than Jesus, but Mr Obama nonetheless does his best to keep religious voters sweet. He often refers to his Christian faith. He lets it be known that his point man on religious affairs, Joshua DuBois, sends him a devotional text each day. He urges fathers to take their responsibilities more seriously. Like George Bush, he subsidises religious charities to do good works. He has broken a campaign promise to bar such organisations from favouring their co-religionists when hiring staff.

But he still has trouble with religious voters. Only 35% of people who go to church more than once a week approve of the job he is doing. And even the religious left are grumbling. As a candidate, Mr Obama convinced the most idealistic Christian progressives that he was one of them. His speeches exuded charity, and he even named his religious political action committee after Matthew 25, a biblical chapter that enjoins the faithful to feed the hungry, clothe the naked, care for the sick and take in strangers. Yet poverty has increased during Mr Obama's presidency, health reform is teetering, a more welcoming immigration policy is nowhere to be seen and Mr Bush's various wars are still being prosecuted with ruthless vigour.

On the religious right, meanwhile, a younger, less confrontational generation of leaders is emerging. James Dobson, the former head of Focus on the Family, a social conservative group, used to berate Mr Obama for his "fruitcake" ideas. Jim Daly, who took over from the 73-year-old Mr Dobson as the group's public face last month, praises the president for his exemplary family life. Despite such civility, Mr Obama will never win many religiously conservative votes. But to regain the trust of the religious left, all he must do is succeed. Though it will take tact and sensitivity to persuade pro-life Democrats to back his health bill, pious progressives will praise him to the heavens if he manages it. ■



Guatemala and organised crime

## Reaching the untouchables

GUATEMALA CITY

Attempts to stop drugs money corrupting public life in Guatemala are making some progress. In Jamaica (see next article) the worries are growing

FOR the second time in less than a year, Guatemala's national police chief has become one of its most prominent criminal defendants. Last August Porfirio Pérez Paniagua was arrested for stealing drugs and cash. He was replaced by Baltazar Gómez (pictured above, left), a respected officer who had passed a polygraph test. Yet on March 2nd Mr Gómez was himself apprehended, along with Nelly Bonilla, the country's anti-narcotics tsar. They were charged with involvement in drugs trafficking and with thwarting the investigation of a firefight last April, when five corrupt cops attempting to seize cocaine for resale were killed by the drugs' owners. This parade of police chiefs in the dock shows both how much progress has been made in the fight for justice in Latin America's most lawless country, and how much remains to be done.

Just a few years ago, such high-level arrests would have been unthinkable. Guatemala's 36-year civil war was the Americas' worst armed conflict of the 20th century: it killed 200,000 indigenous people, and was declared a genocide by a commission sponsored by the United Nations. Yet unlike most of its regional peers, the country was unable to establish a clear break with the past after a peace treaty was signed in 1996. A generous amnesty law meant that no members of the army were jailed for their participation until last year. One of the authors of a truth-commission

report, Juan José Gerardo, was bludgeoned to death two days after its publication. Efraín Ríos Montt, who was president of the military regime when the worst atrocities took place, remained a congressman until his unsuccessful bid to return to the presidency via the ballot-box in 2003.

Free from prosecution, many veterans of the intelligence and security services who had run right-wing death squads regrouped into crime gangs with a lucrative kidnapping business, some of them continuing to serve in the police. Their profits were used to buy off witnesses, judges, and politicians. These networks, present in almost every government agency, joined forces with international drugs traffickers, giving them new funding and firepower.

The result was a surge in violence, propelling Guatemala's murder rate into the world's top ten. Since only 3.5% of murders are punished, there has been a rise in vigilante justice: 49 suspected criminals were killed by mobs last year.

In 2006, faced with a failing narco-state, the government agreed with the UN on an effort to establish the rule of law. They jointly founded the International Commission Against Impunity in Guatemala (CICIG), an agency with 180 staff that would work through the country's own courts to strengthen them and root out criminal networks operating inside government bodies.

Mr Gómez's arrest—backed by seizures

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of illegal weapons, video recordings, and witness testimonies—is the most recent of CICIG's string of successes. In January it demonstrated conclusively that Rodrigo Rosenberg, a lawyer who had recorded a video, three days before he was shot dead, accusing President Alvaro Colom of plotting to kill him, had in fact ordered his own murder. The methodical presentation of the evidence by CICIG's chief, Carlos Castresana, convinced a highly sceptical public, and removed a cloud that could have brought down the government. The agency also played a critical role in the arrest of Alfonso Portillo, a former president, on charges of embezzlement, just as he was attempting to flee to Belize. Mr Colom says these cases are "breaking the paradise of impunity."

CICIG, initially given a two-year mandate, has already been invited to continue until September 2011. The presidents say he will push to have it remain in place beyond then. "The most important thing is transferring CICIG's expertise to the prosecutors and courts. I think CICIG needs time to have a bigger impact before it steps back," he says. Mr Castresana says his agency is doing its best to ensure that national law-enforcement bodies are ready to take on its work by then. What should help, he says, is that Guatemalan public opinion has swung strongly against the culture of impunity, making it easier for Mr Colom's government to push through measures to strengthen local institutions.

CICIG has instigated a wholesale reinvention of the country's justice system. The agency got an attorney-general and ten unco-operative prosecutors fired in its first year, and last year it prevented some underqualified candidates from being chosen as judges. At its suggestion Congress has given prosecutors the ability to wiretap, strike plea-bargains and transfer some

► defendants to special courts. The legislature is now considering implementing a robust civil asset-seizure law like Colombia's, on CICIG's advice.

Yet these advances pale in comparison with the difficulties that lie ahead. CICIG can handle only around 15 cases at a time, each of which takes months to solve. That leaves an overwhelming majority of crimes to be investigated by the Guatemalan prosecutor's office, which is grossly understaffed, relies almost exclusively on witnesses at the expense of hard evidence, and is vulnerable to intimidation and bribery. And as shown by the arrest of Mr Gómez, the situation is even worse among the police, where corruption remains endemic, training for senior officers is lacking and

pay for junior ones is often pitiful.

Solving these problems will require an achievement far beyond Mr Castresana's powers: strengthening the weak Guatemalan state. The central government's spending is just 13.7% of GDP, the lowest in Latin America. And its authority over much of its territory is tenuous: according to the United States Department of State, "entire regions...are now essentially under the control of drug-trafficking organisations." Mr Colom says he will try to get tax increases passed in 2010, but there is little reason to believe he will be more successful than his predecessors. Perhaps the greatest obstacle will be convincing citizens that the government is capable of using their money to protect them. ■

#### Jamaica and organised crime

## Seeking Mr Coke

PORT OF SPAIN

American anger at Jamaica's slowness in handing over an alleged gang boss

UNTIL recently the United States was pleased with the co-operation it was getting from Jamaica over the extradition of people accused of serious crimes. The Jamaican authorities were responding promptly to requests and, last year, sent 15 suspects to the United States. But the case of Christopher "Dudus" Coke seems to be different. The American authorities have become frustrated at what they see as foot-dragging by Jamaica's government over their request last August for the extradition of a man they say is the leader of an "international criminal organisation".

A "Gang Threat Assessment Survey" conducted by the Jamaican government last year reckoned there were 268 criminal groups in Jamaica, earning cash from extortion, selling cannabis, transporting cocaine, contract killings, prostitution and international cybercrime. Many of them are merely small-time thugs. But the United States Justice Department has put Mr Coke on its "world's most dangerous" list, accusing him of directing drug deals as far away as New York.

Mr Coke's home patch is Tivoli Gardens, a tough inner-city garrison close to the waterfront. It is the core of the Kingston Western parliamentary seat, held since 2005 by the prime minister, Bruce Golding, and for 43 years before that by Eddie Seaga, his predecessor as leader of the Jamaica Labour Party (JLP).

Two of Mr Coke's brothers and a sister have been shot dead over the years, either by gangland killers or in shoot-outs with police. His father, Lester Coke, was a leader of the infamous Shower Posse—the gang

which, according to the American indictment, his son now runs. It was widely blamed in the 1980s for more than 1,000 murders in Jamaica and America. Mr Coke senior died in a mysterious fire in his prison cell in 1992, while awaiting extradition to America on drugs and murder charges. It was the day of the funeral for another son, Mark, who had been shot dead three weeks earlier. Mr Seaga, then opposition leader, marched alongside party colleagues in the funeral cortege.

The State Department's annual narcotics report, published on March 1st, talks of a "dramatic change" from earlier co-operation on extradition. It says Mr Coke has "reported ties" to the ruling party and that the delay in extraditing him "highlights the potential depth of corruption in the government." Although the report acknowledges that a police anti-graft squad has made pro-

gress in catching crooked policemen and officials, it says some gang bosses enjoy police and political protection.

Responding to the American criticism, Mr Golding says the extradition request is based on evidence from illegal phone-tapping—an offence, he adds, that carries a five-year prison sentence under Jamaican law. For the processes leading to extradition to start, the respected attorney-general, Dorothy Lighthorne, would have to give her signature. Mr Golding argues that for her to do so in violation of a defendant's constitutional rights would be a resigning matter.

Mr Coke's rights will be ably defended by his lawyer, Tom Tavares-Finson, a government-appointed senator who is also one of the JLP's two members on the island's Electoral Commission. Speaking to the *Jamaica Observer* in December, Mr Tavares-Finson said of his client: "Nobody has heard of him being involved in any criminal activity." He describes Mr Coke as "just an ordinary Jamaican going about his everyday business...trying to improve the lot of his children, his family and his community, with a recognition that he has an influence...and that influence is what is propelling the transformation of western Kingston."

The community influence his lawyer credits Mr Coke with means that the police might find it difficult and dangerous to find and arrest him. Given his father's fate, it would be understandable if he were reluctant to submit himself to extradition. If the American allegations of political links are well-founded, some Jamaican public figures may fear that Mr Coke's arrest would lead to the disclosure of embarrassing information. It is rumoured that he has deposited incriminating documents with lawyers, to be released in the event of his untimely death.

With 1,672 murders last year—the highest number on record—Jamaica is one of the world's most violent countries. Although it is pressing hard for Mr Coke's extradition, the United States must also be aware of the risk that his arrest could further destabilise a country that is already racked by drugs-related violence. When his father and brother died in 1992, rioting and gun battles left at least eight dead.

Jamaica, struggling through a recession, has turned to the IMF for help. Any upsurge in violence might cause great damage to the island's main source of domestic income, tourism. It might also undermine efforts to rebuild nearby Haiti—just 120 miles (193km) away by boat—given the links between Jamaica's gangs and crime in its earthquake-hit neighbour. America's State Department says it wants to see Jamaica's "transformation into a more secure, democratic, prosperous and stable partner." However Mr Coke's case turns out, this will not be easy. ■





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## Brazil's quilombos

## Affirmative anticipation

ELDORADO, SÃO PAULO STATE

A dispute over land becomes an argument about race

OF ALL the peoples that make up Brazil, the quilombolas have perhaps the most remarkable story. Like the Saramaka in Suriname or Jamaica's Maroons, they claim to be descended from groups of runaway slaves who founded settlements, or quilombos, deep in the forests. Most still live in the countryside, farming rice, bananas and other staples, but increasing numbers now live in towns. In the 1988 constitution, drawn up after the end of Brazil's military dictatorship (exactly a century after slavery was abolished), the quilombolas were granted special guarantees to the title on their land, in recognition of their ancestors' suffering.

These rights were amplified in a decree from President Luiz Inácio Lula da Silva in 2003. A bill that would, among other things, solidify their land claims has passed in Brazil's lower house and is now in the Senate. However, not everybody is carried away with the romance of it all.

Benedito da Silva (no relation to the president) lives in Irapurunduva, the largest and best known of the quilombos in São Paulo state, with 400 inhabitants. Mr da Silva says that 20 years ago life was difficult, and many people were leaving. Although Irapurunduva's main link with the outside world remains a single payphone, it has acquired some roads and people have started to return from nearby towns. It helps that Irapurunduva is near a cave that bristles with stalactites, bringing tourists who stop off to buy wooden trinkets.

There are 30 such clusters around the town of Eldorado in the Ribeira Valley. The Palmares Foundation—named after a quilombo that survived for much of the 17th century in what is now Alagoas state—recognises 1,408 of these groups, which are present in all but three of Brazil's 27 states. Since the foundation is attached to the Ministry of Culture, this carries some weight. Many of the groups have declared themselves as quilombolas in "festivals of self-definition", which were held on Brazil's annual "day of black consciousness", November 20th, according to Mauricio Reis of the Palmares Foundation.

Some reckon that this has already gone too far. "It is dividing Brazil into nations of colour," says Onyx Lorenzoni, a federal deputy from Rio Grande do Sul state. The land affected by the law in the Senate amounts to 1m hectares (2.5m acres), says Mr Lorenzoni, so its progress is of concern to Congress's rural landowners' block and

## Canada's Parliament returns

## Seal of approval

OTTAWA

Bereft of controversy, lawmakers chew seal meat and sing a sexist anthem

WHEN Canada's prime minister, Stephen Harper, prorogued Parliament in December for more than two months, to avoid some bothersome debates, he said this was so his minority Conservative government could "re-calibrate" its policies. Now that the recession was over, he said, the emphasis needed to shift towards budgetary control. However, as the new session began on March 3rd, the throne speech outlining the legislative programme was notable for its dearth of new ideas. Likewise the rather dull budget speech the next day.

The Liberals, the main opposition, were so stumped for something to quibble with in the budget that they decided not to vote it down, which at least spares Canadians a third general election in just over four years. So, with little of sub-

stance to joust over, lawmakers have been turning their attention to some less urgent matters. In response to a proposal by a Liberal senator, the parliamentary canteen served seal meat for the first time on March 10th. The idea is to show solidarity with hunters, on Canada's Atlantic and Arctic coasts, who are enraged at the European Union's recent ban on imports of seal products. Last year Canada's governor-general, Michaëlle Jean, caused a stir by eating raw seal meat on a visit to the Arctic. The lawmakers enjoyed their cooked, in a port sauce.

Mr Harper's own attempt to lighten the greyness of parliamentary life was a proposal to rewrite the national anthem, "O Canada", replacing a male-chauvinist phrase, "thy sons command", with a gender-neutral but somewhat archaic previous wording, "dost in us command". The idea was put to him by Senator Nancy Ruth, the Conservatives' only openly gay parliamentarian. Alas, an immediate and overwhelmingly negative reaction forced the prime minister to backtrack just 48 hours later.

Still, the debate about the suitability of "O Canada" for the modern age is bound to continue, especially if lawmakers fail to find anything more important to argue about. Fortunately, a catchy, impeccably progressive Canadian anthem fit for the 21st century has already been written (albeit by Brits): Monty Python's "Lumberjack Song", which celebrates the lifestyle choices of a cross-dressing, gender-liberated woodcutter from British Columbia who wishes he'd been a girlie, just like his dear Mama.



He's a lumberjack and he's OK...

to property developers. Porto Alegre, the capital of Mr Lorenzoni's state, has some long-established quilombola groups who live in the city itself. They are welcome, he says, but he worries about the incentives to create new groups if the law is passed.

One difficulty in resolving these arguments is that historians know little about the experience of slavery in Brazil, despite it being one of the country's most researched subjects. The Palmares quilombo left few traces. Slave owners were often illiterate and so, unlike in America, did not keep diaries. Brazil did not produce the kind of autobiographies written by former slaves in America. People who claim quilombola ancestry may indeed be descended from runaway slaves, or their ancestors may have been slaves who were freed and given plots of land by their owners, ac-

cording to Rafael Marquese of São Paulo University. Many of these subsequently intermarried with the descendants of whites, mestiços and Amerindians.

Brazil has in the past declined to follow America down the path of affirmative action, thanks to the widespread view that the country's more thorough mixing of the races means that the legacy of slavery in the two countries is fundamentally different. That is debatable, but such questions refuse to go away. The Supreme Court is due to rule soon on whether it is constitutional to establish quotas at Brazil's universities for different ethnic groups, in a decision that pits the melting-pot view of Brazilian history against the quilombola view. Whether it will be possible in practice to distinguish reliably between different ethnic groups is another question. ■





## Indian politics and women

## Indian women on the march

DELHI

An historic change in the offing; but India's ruling party may be overreaching itself

YELLING dementedly, seven lawmakers mobbed the chairman of the Indian parliament's upper house on March 8th and tore at the document, containing the women's reservation bill, he was reading from. Yet the bill passed the next day, with the two-thirds majority needed to change India's constitution. With broad political support, including from the Congress party that leads India's coalition government and the main opposition Bharatiya Janata Party (BJP), the bill could soon clear the lower house and win the support it needs in at least 15 out of 28 state assemblies. The president would then sign it into law: imposing a 33% quota for women in India's federal and state assemblies.

This would be momentous, especially for India's half a billion, badly served women. Today's Lok Sabha, or House of the People, as India's lower chamber is known, contains 58 women, a record number, but fewer than 11% of the seats. By greatly boosting women's membership of India's legislatures, the proposed amendment, its supporters say, will also begin to make a dent in their more grievous suffering—in a country where female fetuses are often aborted, where wives are battered and women earn on average \$1,200 a year, less than a third of the male average. A woman can take credit for this: Sonia Gandhi, Congress's leader, who has

pushed the long-mothballed bill against a furious band of dissenters—of a kind that persuaded previous BJP and Congress-led governments not to touch it.

Yet this triumph must be qualified. Even setting aside the question of how effective such affirmative action is—and an existing reservation of 22% of seats for wretched tribal Indians and dalits, Hinduism's former untouchables, is discouraging—the proposed amendment is flawed. With a supposed shelf-life of 15 years, it would cover a different tranche of seats in three successive parliamentary terms. So each time one-third of India's elected members would know they had no chance of being re-elected to the same seat. The women with reserved seats might also think their re-election hopes slim. This arrangement will discourage hard work on a constituency's behalf.

Another reasonable fear is that male politicians will put up biddable wives and daughters for election. They already do—as Mrs Gandhi hinted at when facing down one of the bill's main opponents, a former chief minister of northern Bihar, Lalu Prasad Yadav, who, after being sent to prison, installed his wife to rule the state on his behalf. "Your wife has been chief minister. You have seven daughters. What's their view on the bill?" Mrs Gandhi asked him.

Unconvinced, Mr Yadav, whose party

was among the hooligans in parliament, withdrew its support from the government. So did another north-Indian, low-caste party, Samajwadi. Both parties say the reservation should be dedicated to low-caste women. They also fear it will benefit educated, high-caste women, who are more likely to stand for Congress or the BJP. If, as expected, a third opponent of the bill, the Bahujan Samaj Party, the pro-dalit ruler of northern Uttar Pradesh state, also forsakes the government, it would be reduced to a majority of two in the Lok Sabha. In the worst case, it might even fail to get the necessary support for the budget announced on February 26th, and fall.

Recent grumbling from Congress's two biggest allies, West Bengal's Trinamul Congress (TMC) and the Dravida Munnetra Kazhagam of Tamil Nadu, have raised fears of this. Both parties oppose a proposal in the budget to raise petrol and diesel prices, and the TMC abstained over the women's reservations bill. But the government will probably survive. Most opposition parties, including the BJP, still feel bruised after a thumping general-election victory by Congress last year, and none wants an election soon.

Yet the government's reduced support is worrying. Barely ten months after Congress was returned to power at the head of a more solid-looking coalition than it had previously led, it will struggle to pass any contentious legislation. And it will have to pay a heavy price to its, now indispensable, allies to do so. Liberal reform of India's state-controlled financial and over-protected retail sectors, for example, looks unlikely than ever. In announcing the budget, Pranab Mukherjee, the finance minister, said India's priorities were to return to the annual 9% growth it achieved ▶▶

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for most of the previous government's term, then "find the means to cross the double-digit growth barrier". Without bold reforms, that will be impossible, and even 9% may be out of reach.

So the timing of Mrs Gandhi's push for women's quotas might seem reckless. It suggests an overestimation of Congress's strength, and the party's failure to reassure the TC's irascible leader, Mamata Banerjee, is careless at best. Mrs Gandhi has picked her political fights carefully since taking over her murdered husband Rajiv's party in 1998, and won most of them. So she may not be too perturbed. The economy looks healthy enough, with growth forecast at 7.2% for the financial year ending this month. She will be more concerned by the government's failure to introduce more crowd-pleasing measures, like the lavish welfare schemes, paid for with the bumper revenues that rapid growth affords, launched in its previous term. With this year's budget deficit nudging 10% of GDP, if you include the state governments, these are harder times. Yet reservations for women should at least please half the crowd.

Devout Congressmen, buoyed by last year's election result and the havoc it has played with the BJP, are pleased merely to see a Gandhi calling the shots. Many have a jaundiced view of Mrs Gandhi's technocratic prime minister, Manmohan Singh, and look forward to her 39-year-old son, Rahul, taking over. This is likely to happen in Congress's next government—but when that will come is hardly worth guessing. The party has been doing well. But with only 208 of the Lok Sabha's 545 seats, Congress, and its government, are weaker than its leaders seem to think. ■

#### China mulls a property tax

## An odd sort of tax

BEIJING

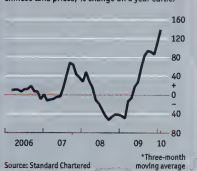
That some liberals want and local governments fear

AGRANDMOTHER killed trying to stop developers flattening her home; university graduates forced to live in crowded slums: China's ebullient property market has generated many tales of woe, and a promise from the prime minister, Wen Jiabao, to "rein in" the speculators. But calls for this to be achieved with a new property tax have put the government in a bind.

In the past year property prices have surged to new highs in some places, helped by a torrent of carefree lending from state-run banks. Mr Wen made his pledge on March 5th, in a speech to China's parliament, the National People's Congress (NPC), launching its annual ten-day

#### The sunny uplands

Chinese land prices, % change on a year earlier\*



Source: Standard Chartered

session. The NPC is filled with party loyalists. But some have fretted openly about property bubbles. The government says house prices in 70 cities rose 10.7% in February compared with a year earlier, the fastest rise in 20 months. There are early signs that this is denting sales. In both January and February the volume of housing sales fell sharply from the previous month.

Since late last year the government has been deploying some of its usual tactics to cool the market, such as bigger down-payment requirements for second homes and the reimposition of a sales tax for properties sold within five years. But many NPC delegates say it is time for action on a long-debated tax on property, paid regularly on its assessed value. This, they argue, would deter speculators from hoarding empty property and help bring prices down. Some advocates go further and argue it could also make China's notoriously corrupt and high-handed local governments more responsive to citizens' needs.

China has been toying with the idea since 2003. Several cities, including Beijing, have been conducting experiments—on paper only—with levying such a tax. But the government has remained diffident. In January a Chinese newspaper said the tax-simulation exercise would be extended nationwide this year. This triggered speculation that the tax might soon be introduced. Property-company share prices fell accordingly. But a few days later a senior tax official said the government was still only studying the idea. In his speech Mr Wen made no mention of it at all.

Local governments are putting up tough resistance. For now they enjoy huge windfalls when they sell land-use rights to developers. Last year prices more than doubled (see chart). Some analysts believe that in many places fees from land transfers make up more than 30% of local-government revenues. They are a handy prop for these governments' risky fund-raising ventures (see page 78). Many supporters of the tax say it should incorporate the land-use fees. Those governments would take in their land revenues in instalments over very long periods (a schedule of little ap-

peal to rapacious officialdom). The prices of new properties, they say, would drop because they would no longer be inflated by the land-use fees, which developers pass on. Most also say the tax should only apply to properties above a certain size or that are not primary residences.

But others argue the tax would make hardly any difference to house prices, because of China's huge demand for housing as it urbanises. They also think assessing values would be far too complex in a property market still in its infancy.

Some advocates of the tax, however, eye broader benefits. Local governments, no longer drawn by land-fee windfalls, would be less prone to the sort of high-handed land-grabs that have triggered tens of thousands of protests in recent years—and this month the death of the grandmother. Owners, required for the first time to pay regular taxes on their property, would demand better services from their governments, and closer oversight of them. For the party, running a property-owning dictatorship is far from easy. ■

#### Koreans in Japan

## Taxation without representation

TOKYO

The DPJ stumbles in its efforts to grant foreigners the vote

BY RIGHTS, giving long-term South Korean residents in Japan the right to vote in local elections should be uncontroversial. They pay taxes, speak Japanese, and come from families that have lived in Japan for decades. Most were dragged here to work under the colonial cask before and during the second world war.

A limited move to enfranchise them came from the very top of the ruling Democratic Party of Japan (DPJ). It swept to power last September promising to end prejudices built up under the ousted Liberal Democrats. Yukio Hatoyama, the prime minister, backs it. The DPJ's secretary-general and puppeteer-at-large, Ichiro Ozawa, even assured Lee Myung-bak, South Korea's president, that he would soon push it through the Diet, or parliament.

Yet the legislative momentum has stalled, even within the ruling party. Yoshio Maki, a DPJ lawmaker who opposes granting South Korea's "special residents" local voting rights, believes it is a non-starter. He says Mr Hatoyama and Mr Ozawa may even have crystallised opposition to it by making it seem inevitable. Since the DPJ came to power, eight of the 34 prefectures that originally supported the move have changed their minds. The Liberal Democrats have hardened their op- ▶▶

position. And one of Mr Hatoyama's coalition partners, the People's New Party, has threatened to quit the government if a suffrage bill goes to the diet.

Mr Maki argues that the bill is popular neither among his constituents nor among the Koreans he knows. He believes they should become full citizens instead, in which case they would be granted full suffrage. And he insists there is no xenophobia. But the debate does suggest Japanese people still have plenty of misgivings about their neighbours from Korea and China. To be fair, this mistrust is heartily reciprocated. At 469,000, the Koreans are the biggest group of foreign permanent residents in Japan (though Chinese visitors are more numerous). The government makes Koreans born in Japan, who may never have been to the peninsula, choose between North and South Korean nationalities. "Northerners" would be excluded from any suffrage bill because their nuclear-armed country has no diplomatic ties with Japan. Having mixed feelings about Japan, and strong family ties in Korea, neither northerners nor southerners are keen to give up their original nationality, and become full Japanese citizens. Nor are most Chinese people, whose numbers in Japan have grown to about 1m, making them the largest ethnic minority.

Suspicion among all three historical enemies dates back centuries. In 2005 a United Nations special rapporteur on human rights expressed concerns that racism in Japan against the two other groups was deep and profound. Yoichi Funabashi, editor-in-chief of the *Asahi Shimbun*, a national newspaper, who supports giving Koreans suffrage rights, says the biggest fear among Japanese may not be the Koreans. He says many in the DPJ are willing to give them the vote, but fear that if they did, Chinese Japan would want to follow suit.

Conservative elements of the Japanese press do not share Mr Funabashi's temperate views, and it is relatively easy for them to whip up fury among ultranationalists. Last October a young man broke into the DPJ's Tokyo headquarters and reportedly vented his frustration over the issue by smashing the prime minister's old computer beyond repair. Anti-Korean and anti-Chinese hatred is increasingly surfacing on the internet, too, and those countries give as good as they get. This week, for example, a cyber-skirmish erupted between South Korean and Japanese internet-users after a slater to Kim Yu-na, a South Korean figure-skater who trumped Japan's Mao Asada to win gold at the Vancouver Olympics.

The DPJ's handling of its internal critics over the voting-rights bill is a big test of Mr Hatoyama's courage and political principle. It may show just how far he has to go before the sea of "yuai" (fraternity) that he hopes will extend across East Asia becomes more than just a dreamy slogan. ■

## Economic reform in Malaysia

# Out with the new

KUALA LUMPUR

**Najib wavers over undoing affirmative-action policies**

WHEN Najib Razak took office last April as Malaysia's prime minister, the timing could hardly have been worse. The export-led economy was in recession. The ruling coalition was in the dumps after an unprecedented near-defeat in elections in March 2008. Opponents warned that Mr Najib's government would crack down on political dissent to save its skin.

Against the odds, though, Mr Najib, a British-educated economist, has emerged as a more sure-footed, and less scandal-prone, leader than many expected. He has stimulated the economy back to life and liberalised some financial services. Growth is likely to exceed 4% this year—reaching 6%, in his own optimistic forecast. There are ambitious new targets for cutting crime and building roads, among other populist policies. Foreign businesses have been encouraged by Mr Najib's promises to liberalise the broader economy, spur innovation and raise productivity. Everyone agrees that Malaysia needs to move beyond run-of-the-mill electronics and focus on knowledge-based industries.

This, however, is where Malaysia's political realities start to bite. Any serious overhaul has to tackle the perks given to Malays and other indigenous races, who make up about 65% of the population. The

system saps Malaysia's competitiveness, and has driven some frustrated members of the minorities—mainly Chinese and Indians—to decamp to more meritocratic countries. Mr Najib has signalled a readiness to pare back the privileges for so-called *bumiputras* (sons of the soil). They were introduced, as the "New Economic Policy" by his father, Abdul Razak, Malaysia's second prime minister, after race riots in 1969. The idea was to redress the imbalance under which the Chinese minority in particular dominated the economy.

Investors have been waiting eagerly for Mr Najib's "New Economic Model" (NEM). Officials say that the NEM will be unveiled in the next few weeks. But details may be sketchy, as Mr Najib tries to contain a backlash, including from the ranks of his own party, the United Malays National Organisation (UMNO). Some members are siding with Perikasa, a new Malay-rights group led by Ibrahim Ali, a former UMNO MP. Mr Ibrahim, who is accused by opponents of race-baiting, says Malays are still not ready to compete on a level playing field. "We just want our fair share," he insists.

None of this comes as a surprise. *Bumiputra* perks yield a stream of uncontested, negotiated contracts and other forms of patronage to UMNO politicians. Last year Mr Najib seemed to win the argument that renewed economic growth, essential to stem the ruling coalition's slide in the polls, demanded some sacrifices. Now, however, UMNO heavyweights are siding with Perikasa in a rearguard action. Nor Mohamed Yakcop, a minister in charge of economic planning, says that the NEM is still being fine-tuned and declines to elaborate. Pressed on the phase-out of racial quotas, he says that, for the model to work properly, growth must be "inclusive".

One way to stimulate the economy would be to sell stakes in government companies, which might also catch the eye of foreign investors, whom Mr Najib is trying to lure back. Wai Ho Leong, an analyst at Barclays Capital, an investment bank, believes that besides cutting the fiscal deficit, which rose to 7.4% of GDP last year, privatisation could put Mr Najib's target of 6% annual growth within reach.

That still falls short of the 8% annual average that the government says it needs to achieve its "2020 vision" for Malaysia of developed status by that date. But this requires action on the structural impediments to private investment, which has never fully recovered from the 1997-98 Asian crisis. Chief among these is a poorly educated workforce that is no longer cheap when compared with Vietnam and Indonesia, and is short of the skills needed for innovation, as a brain-drain accelerates. Mr Ibrahim takes the long view, arguing it might take another 100 years for Malays to catch up with other races. Few investors have as distant a horizon. ■



Najib ponders his patrimony



Rigging Myanmar's election

## Belt, braces and army boots

### The generals leave nothing to chance

THE junta ruling Myanmar has had 20 years to digest the lessons from the country's most recent election. It was trounced by the National League for Democracy, even though the opposition's charismatic leader, Aung San Suu Kyi, was already under house arrest. This year on an unnamed date (perhaps its astrologers cannot agree) the junta will hold another election. It will not lose this one.

Election laws published this week do not quite spell out the result. But a "political-parties registration law" bars Miss Suu Kyi and other political prisoners, of whom there are more than 2,000, from belonging to a party because of their criminal convictions. Cut off from politics by her house arrest, Miss Suu Kyi is anyway barred from office as the widow of a foreigner. Her party now has to expel her and other detainees. The law also bans civil servants from joining parties, along with monks, who led anti-government protests in 2007.

The dilemma the opposition faces has become sharper. It has long had to worry about whether to add legitimacy to a sham electoral process by taking part, or risk further marginalisation by boycotting it. Now the League has been allowed to reopen branch offices closed since 2003. But it has 60 days to decide, in effect, between taking part in the election and abolition as a legal party. In 1995 it pulled out of a farcical "national convention" drafting a new constitution. The constitution that emerged in 2008 duly enshrines the role of the army. This time the League may feel compelled to take part, but find that just as ineffectual.

The election, nonetheless, does come at

### Elections in the Philippines

## Vote before the system crashes

MANILA

Technology complicates life for vote-riggers and counters alike

RIGGED elections and the instability they create have been the bane of the Philippines for much of its democratic history. Filipinos are fervently hoping that the computerisation of the vote-counting in May's presidential, congressional and local elections will solve the problem. But faith in the technology is less fervent. Many fear it is no solution.

In past elections voters had to write down the names of their preferences for up to 32 national or local positions on blank ballot forms. Their votes were tallied by hand at the precinct, municipal, provincial and finally national levels. Definitive results could take weeks to emerge, giving ample opportunity for vote-padding and shaving. Vote-rigging by President Ferdinand Marcos led to his downfall in 1986. The incumbent president, Gloria Macapagal Arroyo, has had a shaky grip on power since she was accused of rigging her election in 2004.

This year the candidates' names will be printed on the ballot forms, and voters must ink in ovals beside their choices. They then have to feed the forms into machines that count the votes and transmit the totals—usually through public wireless networks—to central servers. The Commission on Elections (Comelec) expects definitive results in 48 hours.

Comelec's supplier, a Venezuelan-owned company, says the system cannot be hacked. But Comelec tests have shown that the machines often reject ballots, and sometimes fail to connect to the servers. An opinion poll found that most voters do not know how the system works. Many could be bewildered by a ballot 60cm-long, printed on both sides.

Noynoy Aquino, a senator whom opinion polls make the favourite in the presidential election, has spoken darkly

of a plot to "affect the outcome", but gave no details. Comelec has said it is investigating reports that 5,000 wireless signal-jammers have been illegally imported. It says it is ready, if there are breakdowns, to count up to 30% of the vote by hand. But manipulation of a lower share may be enough to sway the expected close contest between Mr Aquino and another senator, Manny Villar. Other politicians have voiced fears that a disputed result might leave a power vacuum, which could be filled by the armed forces or by Mrs Arroyo's staying on. Computerisation is meant to reinforce stability, but might even have the opposite effect.

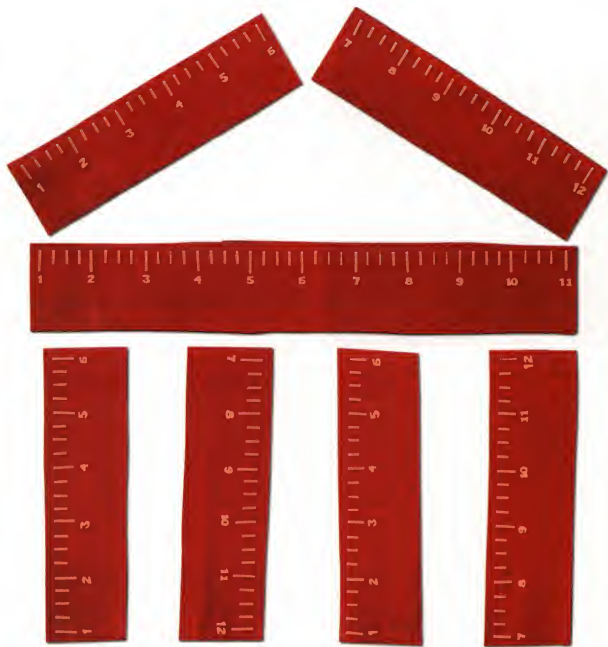


at a time of some sort of change, if only generational. Than Shwe, the "senior general" (pictured), is 77. He and his comrades are preparing to pass on the baton. Western diplomats hope that, having cut their teeth fighting a Chinese-backed communist insurgency, they are uneasy with Myanmar's isolation from the West and loth to bequeath their successors a regime so reliant on China. The election, one stop on a "road map" to democracy, in this analysis, is one way of opening up.

In another change the junta has started a remarkable if stealthy process of selling state assets: ports, buildings in Yangon vacated by its shift of capital in 2005, petrol

stations, telecoms firms and a share in the national airline. This is hardly a gesture to economic reform—the sales are cooked-up deals benefiting junta cronies. But nor does it seem just the desperation of a cash-strapped regime. Rather, in the analysis of Yoni, of *Irawaddy*, a magazine published by émigrés in Thailand, it is the "formal transfer of the nation's wealth into the hands of an entrenched elite", ahead of an election and the implementation of a new constitution which, in theory, should allow greater competition for assets. This elite is "pre-emptively buying up everything in sight". It has a similar attitude to competition of the democratic kind. ■





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# Banyan | Not whaling but drowning

In a sea of international opprobrium. But a compromise may be at hand



**I**F YOU'RE tempted by a slab of meat gristle which surrenders little but an ooze of grease when chewed, then you'll love whale. Add to the sensory experience the accumulated mercury to be found in whale meat. Consider the suffering caused by the hunt to these intelligent mammals; and a military-industrial approach to their extermination. Japan going a-whaling is, to borrow from Oscar Wilde, the unspeakable in pursuit of the almost uneatable.

As with foxhunting in Britain, views seem irreconcilable. Since 1986 the International Whaling Commission (IWC) has imposed a moratorium on commercial whaling. Yet every Antarctic summer, Japan sends a whaling fleet south to catch hundreds of whales for "research". And every year at the IWC's meeting, pro- and anti-whaling camps gather in sullen deadlock. On the whaling grounds the Japanese fleet encounters the Sea Shepherd Conservation Society. The ocean warriors hurl rancid butter on Japanese decks, use warps to foul propellers and attempt citizen's arrests of the whaling captains. Early this year a Sea Shepherd boat sank after a collision. Now an American film has turned a spotlight on Japan's coastal hunt for cetaceans. "The Cove", shot largely in secret, shows the annual dolphin slaughter in Taiji, a village on Japan's main island. This week it won an Oscar.

The slaughters have damaged Japan's standing among ordinary folk abroad. Now relations with Australia, Japan's closest friend in Asia, are at risk. Australia's prime minister, Kevin Rudd, has threatened to sue Japan in the International Court of Justice if it does not give up whaling by the start of the next season, in November. In response, Japan's pro-whaling position appears only to have hardened. With veiled threats, whaling groups urge cinemas in Japan not to show "The Cove". Two activists from Greenpeace claiming to have uncovered corruption in Japan's Antarctic whaling programme have themselves been put on trial.

When the Democratic Party of Japan (DPJ) came to power last year, it had few pro-whaling instincts, unlike the Liberal Democratic Party before it. Yet it now finds itself courting international disapproval both over whales and over tuna. This week an international wildlife-protection body begins a meeting that is likely to impose a ban on trading northern Atlantic bluefin tuna. Many Japanese, it seems, would be angry if they were not allowed to eat a prized source of sushi and sashimi to extinction. Some crit-

ics extrapolate a national pathology that goes beyond conservation. Japan, they say, is turning its back on the world.

A visit to Taiji gives a slightly different perspective. It is one of Japan's more intriguing and distinctive spots. People have family names like Tomi (literally, lookout), Kaji (ironsmith) and Amino (net). Four centuries ago locals made breakthroughs in harpoon technology and the use of nets to slow down migrating whales. An old painting shows villagers at sea using ladders to scale a slaughtered right whale. Old stone monuments appease the whale spirits, but the meat sustained Taiji through famines.

As well as going after dolphins, villagers not allowed to hunt the minke whales along the coast have turned to hunting (rarer) toothed whales not covered by the IWC's moratorium. They understandably resent the IWC, which has allowed several indigenous groups to hunt whales for "subsistence" since 1986. The Makah Indians in Washington state had entirely forgotten how to hunt or handle a boat. Caribbean islanders from Bequia may go after humpbacks, yet learned whaling only in the 1870s, and that from New Englanders. Taiji's men have chased whales on Japan's coast for perhaps millennia.

The Antarctic, however, is a different kettle of fish. With industrial-scale whaling, cultural claims ring hollow. Douglas MacArthur launched Japan's modern whaling because he wanted protein for a hungry land after the second world war. These days few outside strongholds like Taiji have a taste for whale meat. The state whaling company is kept afloat with cheap loans and subsidies. Sea Shepherd, too, has an impact: the fleet is landing only half the whales it aims to catch. The 200-odd Antarctic whalers and the bureaucrats that back them are just the kind of special interest the DPJ claims to take on. But whaling constituencies swung to the DPJ in the last election. And, when Sea Shepherd is not on the scene, whaling attracts scarcely any interest among the wider population, largely ignorant of foreign disapproval. Public sentiment on whaling, for and against, is anaemic.

## To have your fox and eat it

So perhaps common ground might be found after all. Last year a former foreign-ministry spokesman, Tomohiko Taniguchi, broke ranks. Japan should think about giving up Antarctic "research", he said, in return for a limited resumption of commercial coastal whaling. As well as the damage to Japan's international standing, he also pointed out that meat from Antarctic whaling spoils the market for Japan's handful of local whalers. The deadlocked IWC may be groping towards a similar solution. A proposal named after its head, Cristián Maquieira, aims for a big cut in catches in return for limited commercial whaling by those already taking whales, while bringing "research" whaling under IWC control. Japan appears interested, though details will become clearer only with the IWC's annual meeting this summer.

Conservationists would rail against any resumption of commercial whaling. So would Australia. But the motives for Mr Rudd's whale-protection fervour are not wholly pure. Australia has territorial claims on Antarctica and adjacent seas. Meanwhile, Mr Rudd hopes his zeal will draw urban voters away from the Greens in the next general election, which will helpfully fall before the November deadline. Even so, a deal would be far better than continued stand-off. Whale meat would remain uneatable, but the pursuit of it would be a little more speakable. ■



The Israel-Palestine peace talks

## More than just a charade?

CAIRO AND JERUSALEM

Few of the participants have much hope that the resumption of talks, to be held indirectly through American mediators, will soon lead to a two-state solution

IT WAS a wretched beginning to what had been hailed as the hopeful resumption of peace talks, albeit indirect ones, between the Israelis and Palestinians under the aegis of an American mediator. Barely had America's vice-president, Joe Biden, begun a visit to Israel to herald a new era of compromise and goodwill than it was announced that 1,600 houses would be built for Jewish settlers on the Israeli-annexed eastern rim of Jerusalem that Palestinians see as part of their future capital. Palestinians were united in fury. Peacemaking outsiders viewed the action as the illest of omens. Mr Biden sharply "condemned" it as "precisely the kind of step that undermines the trust we need right now."

A sheepish-looking Binyamin Netanyahu, Israel's prime minister, let his aides claim lamely that he had been unaware of the decision. The next day his minister of interior apologised, conceding that the timing was unfortunate, but said that the announcement was merely a "routine, technical" step. Unsurprisingly, all this only increased scepticism about the promised new round of talks.

Mr Netanyahu's own intentions are still fuzzy. His embrace of the notion that Israel and Palestine should exist side by side, professed in a speech at Bar Ilan university last June, is still hedged with conditions that, in many eyes, suggest it was a tactical ploy rather than a bid for a durable deal. Though embarrassed by the interior ministry's aired intention to build Jewish houses in East Jerusalem, he did nothing to coun-

termand it or to scold the minister. Nor has he seriously reined in Jerusalem's blustery mayor, Nir Barkat, who has also been encouraging Jewish settlement in previously all-Palestinian areas.

It is unclear how much the "proximity" talks will differ from the recent efforts of America's dogged envoy, George Mitchell, who has been shuttling between the parties for more than a year. Meetings will now be held between each of the two sides and the Americans, one at a time, but not yet directly between the main pair. Some Israelis hint that negotiations could take place in the same building but in different rooms.

Worse for the Palestinians, Mr Netanyahu apparently wrung an assurance from the Americans (before Mr Biden's embarrassment) that concessions offered by his predecessor, Ehud Olmert, to the Palestinians' president, Mahmoud Abbas, would not mark the point of departure for new negotiations. Instead, the parties will go back to the long-dormant "road map" laid out by George Bush seven years ago. Israel, then led by Ariel Sharon, broadly accepted it but with a long list of reservations.

President Shimon Peres, a former prime minister, has been urging Mr Netanyahu to be flexible and, as a sign of seriousness, to dump some of his hardline coalition partners and bring into government the centrist Kadima party. That is led by a former foreign minister, Tzipi Livni, who made some modest headway in previous talks with the Palestinians. This could yet hap-

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pen (see our next article). Without it, almost no one expects much if any progress.

For his part, Mr Abbas fears that Mr Netanyahu lacks the desire and the Americans the clout to bring about two states. The Palestinian leader is conscious of his own weakness. His first demand is that Israel stop Jewish settlement-building in East Jerusalem. But privately he may think that, as a preliminary step, negotiating new borders would be more productive. He hopes that Israel, even under Mr Netanyahu, may, with an American nudge, consider withdrawing almost to the 1967 line, as long as land-swaps let the bulk of Israeli settlers stay put within an adjusted border.

When the two parties last formally talked, Mr Abbas proposed swapping 19% of the West Bank for equivalent slices of Israel, whereas Mr Netanyahu's predecessor, Ehud Olmert, offered 6.5% (and later suggested a lower figure). The Palestinians are looking to Mr Mitchell to try his luck, early on, to narrow that gap, which could give momentum to wider negotiations.

To impress the Israelis, Mr Abbas could be more forthright to his own people about his readiness to swap land. If Mr Netanyahu wanted to generate goodwill, he could also give Mr Abbas's Palestinian Authority more power in the 60% of the West Bank still under Israel's control. He could let Palestinians launch more projects there and halt Israeli demolition of Palestinian homes. He could reduce the number of Israeli military incursions into Palestinians' West Bank towns and let more West Bank Palestinians visit Muslim shrines in the heart of Jerusalem.

If proximity talks merely prolong the impasse, the stock of America—and Barack Obama—in the region will fall still further. Mistrust between Palestinians and Israelis will rise, perhaps even sparking another *intifada* (uprising) like the one that erupted after talks at Camp David failed in 2000. "It's a bit of a joke," says a Palestinian nego- ▶▶

tiator bitterly. "We've been in direct negotiations with the Israelis for 17 years, and all that we can agree is not to formally meet."

At the suggestion of the 22-country Arab League, which gloomily endorsed the proximity plan at a meeting in Cairo, the talks will last only four months. If they stall, some Arab diplomats say the league could withdraw its offer of 2002 to accept a comprehensive peace with Israel in exchange for its withdrawal to the 1967 lines.

The Arabs say they may reverse their endorsement of the talks. But America's allies—Egypt, Jordan and Saudi Arabia—are loath to adopt the confrontational stance of the rejectionists. Hamas, the Palestinian Islamist group that refuses formally to accept Israel's existence, was delighted by Mr Biden's embarrassment. Al-Quds al-Arabi, an Arabic-language daily published in London that often echoes broad Arab opinion, derided the plan. Rigor mortis, it said, had set in among Arab and Muslim leaders. The Palestinians, it seems, must wait for their state for a good while yet. ■

## Iraq's election

# The wrangling has only just begun

BAGHDAD

A government reflecting the people's will should slowly and messily emerge

DOZENS of explosions woke up voters in Baghdad on March 7th, heralding the day of the general election. Every few minutes another thunderous bang reminded them to stay at home, away from polling stations. Officials said the city had been hit by a barrage of mortars. Voter turnout was lower than before, in Baghdad little more than 50%. It was hardly a shining model of democracy.

The American army played down the violence. Most of the bangs, said its spokesman, had been caused by water bottles stuffed with explosives. Insurgents had put them in bins around the city and

set them off by mobile phones to terrify voters. Two big bombs had killed at least 38 people but nobody was badly hurt by the bottle-bombs, said General Ray Odierno, the American commander. The bangs were an act of desperation by a fading insurgency. The turnout overall was said to be 62%. Despite the fear, many Iraqis were plainly determined to assert their democratic right to choose their leaders. Barack Obama called the election a "milestone in Iraqi history".

Producing a new government is another matter. Months of haggling between the plethora of electoral fronts is likely to ensue. The State of Law alliance, a predominantly Shia group led by the prime minister, Nuri al-Maliki, is said to have done well, as is the more secular and cross-sectarian Iraqi National Movement led by a predecessor of Mr Maliki, Iyad Allawi, another Shia. Both men said they had won, without solid evidence to support their claims. The final result will not be announced for at least a month.

Only then will parliament meet and start to form a government. First it will elect a speaker, by recent tradition a Sunni Arab. Next, according to the constitution, it must choose a president, possibly a Kurd, as before. By midsummer, the new members of parliament may set down what they call "the road to 163". That is the number of MPs needed for a majority in the legislative chamber. No party or electoral alliance will have come close to that figure on its own. Yet even if Messrs Maliki or Allawi each get as few as 70 seats out of the 325 on offer, they could still be front-runners to form a government. The new parliament will be as fragmented as the old one. Coalition-building is what counts. Iraqi politicians will have to do what they find hard- ▶▶

## Israel's disputatious Avigdor Lieberman

# Can the coalition hold together?

JERUSALEM

A religious issue is threatening the government's cohesion

AFTER a year in office, Israel's right-wing-cum-religious coalition is feeling an ominous tremor of internal discord. The issue, the bane of so many past coalition governments, is state and synagogue. A bill easing conversion to Judaism, championed by the foreign minister, Avigdor Lieberman, and his ex-Soviet immigrant party, Yisrael Beiteinu, has run into furious resistance from the ultra-Orthodox party, the United Torah Judaism (UTJ), a coalition partner.

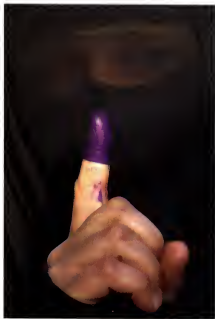
"When I die, I'll go straight to heaven just for having pushed through this bill," says David Rotem, chairman of parliament's law committee and a member of Yisrael Beiteinu (meaning "Israel is our home"). "I don't know where opponents of the bill will go." Ultra-Orthodox members, apparently confident of their place in heaven, protested. A member of the Labour party, another coalition partner, said that if the ultra-Orthodox were in heaven he would rather not go there.

Can these disparate factions stay together on earth for another three years? For many Israelis, the issue touches their personal lives and their sense of identity. Of the m-plus immigrants from the former Soviet Union who have settled in Israel in the past two decades, some 300,000 are considered gentile by the Orthodox rabbinate, because, under the Orthodox interpretation, Jewishness is transmitted only through mothers. As a

result, they cannot marry in Israel, where the only form of marriage is religious. And they cannot generally be buried in Jewish cemeteries, even if they die in army service. Those who seek to convert are required by the rabbinical courts to adopt an Orthodox lifestyle, which most of the immigrants, like most Jewish-born Israelis, are not prepared to do.

Yisrael Beiteinu's bill would take conversion out of the exclusive control of the rabbinical courts and empower community rabbis around the country to convert people. The party's assumption is that pastoral clergymen would be more lenient and accommodating than the stern and remote rabbinical judges. For that reason, UTJ objects to the bill. Mr Lieberman claims he had the written support of Shas, the Sephardic-Orthodox party, another coalition partner. Shas, he says, wobbled under pressure from UTJ.

Binyamin Netanyahu, the prime minister, is loath to lose any of his partners and has told lawyers to find a compromise. Mr Lieberman says he wants a result before Israel's parliament adjourns for its spring recess. In any event, other problems could remove him from the government. Corruption charges, which he says are politically motivated, persist. And he is often sidelined as foreign minister. For one thing, his commitment to a two-state solution has always been even more questionable than Mr Netanyahu's.



The purposeful purple patch

best: accommodate each other.

They have a range of choices. The path to power is foggy. Mr Maliki could team up with a Kurdish block, though that still would not give him a majority. He could try to win over parts of the Iraqi National Alliance, a predominantly Shia Islamist lot which includes several old allies with whom he has quarrelled. Perhaps instead he could woo members of Mr Allawi's more secular alliance. Mr Maliki's big advantage is that he will remain prime minister as the wrangling drags on, thereby still controlling the government and having a better chance of shaping events.

Mr Allawi's task may be trickier. If he links up with the Kurds, his northern Sunni Arab allies could angrily desert him, since they are at daggers drawn with the Kurds in and around Mosul, northern Iraq's biggest city. If Mr Allawi beds down with some of the Shias of the Iraqi National Alliance, his Sunni allies in Baghdad and Anbar province, two of his power bases, might dump him. Mr Allawi's non-sectarian approach in the election could yet harm him when it comes to making wider alliances.

Clusters of smaller parties could hold the balance. But the Kurdish block, often touted as the kingmaker, looks weaker than it was, because a new Kurdish opposition group, Goran (Change), has gained ground and may split the Kurdish vote in parliament, thereby undermining the old guard's ability to call the shots.

The Iraqi National Alliance, the most fiercely Shia group, is also in flux. The wing that supports Muqtada al-Sadr, a populist cleric, has gained influence at the expense of the more pragmatic Islamic Supreme Council of Iraq (ISCI), which owes allegiance to the Hakim family and is close to Iran. Many former ISCI voters seem to have stayed at home, especially in the south, where the group used to prevail. Unless it is woven into the ruling establishment, the militia loyal to Mr Sadr could end up running a statelet within a state, similar to Hizbullah, the Shia party-cum-militia that dominates southern Lebanon.

The courts could play a big part in coalition-building. Complaints of fraud are piling up. Mr Allawi says the National Alliance tried to remove some of his allies from the ballot the night before the poll. And he has accused Mr Maliki's people of intimidating voters. In return, Mr Maliki may sue for defamation. Meanwhile, Arabs in the north are casting doubt on Kurdish voter rolls. It could get nasty.

The Americans and the Iranians will both try to promote favoured candidates. Messrs Maliki and Allawi would be acceptable to both their governments. "We'll be close to the process," says America's ambassador, Chris Hill. Whoever emerges in charge, the election result is likely to reflect the Iraqi people's will. And that should enable the Americans steadily to go home. ■

## Stalemate in Zimbabwe

# An early election?

JOHANNESBURG

**The unity government is stuck. An early election might break the logjam**

WITH a power-sharing government plainly going nowhere, Zimbabwe's president, Robert Mugabe, has announced that fresh elections could be held early next year, whether or not a new constitution is ready. At the age of 86, he says he is ready to stand again—if, he adds coyly, his ruling ZANU-PF party wants him to. Next month he will celebrate 30 years of untrammelled power.

Morgan Tsvangirai, Zimbabwe's prime minister and leader of the Movement for Democratic Change (MDC), which was forced into a unity government despite winning a general election in the face of violence and fraud two years ago, wants South Africa's president, Jacob Zuma, to intervene. Talks to encourage Mr Mugabe to implement fully the power-sharing agreement he signed 18 months ago under the aegis of the Southern African Development Community (SADC), a 15-country regional grouping, have foundered.

Since the unity government was set up a year ago, Mr Mugabe has treated Mr Tsvangirai and his party with contempt. The violation of human rights, the persecution of MDC campaigners, the invasion of white-owned farms and disregard for the rule of law—all supposed to have been dealt with under the pact—have continued unabated. Now, as if to underline Mr Tsvangirai's impotence, Mr Mugabe has

unilaterally stripped several MDC ministers of their powers, transferring them to ZANU-PF ministers.

Likewise, without consulting his prime minister, he has recently issued new "indigenisation" rules, requiring at least half of any company worth over \$500,000 that is owned by whites or foreigners to be owned by black Zimbabweans. Whites are also to be banned from running certain smaller businesses, such as estate agents, hairdressers and advertising agencies. Violators face up to five years in jail. Though Mr Tsvangirai has pronounced the new law "null and void", some legal people say there is little he can do to block it.

The Zimbabwe stock exchange, where shares had been rising fast in the past year, slumped on the news. The country's businessmen, already struggling to cope with electricity cuts, lack of capital and an acute shortage of manpower skills, are agast. The ZANU-PF minister responsible for the new law has told foreign banks to start lending money to black Zimbabweans or "ship out". Foreign investors, whose cash is sorely needed, are thinking again.

Meanwhile, the state-owned Zimbabwe Mining Development Corporation, in a joint venture with two controversial South African companies, is continuing to mine the Chiadzwa diamond field, in the country's east, despite an order by Zimbabwe's Supreme Court to desist, since the mine's ownership is disputed. Tendai Biti, the finance minister and an MDC man, says that in any case the government has not received a cent from what he describes as "the biggest find of alluvial diamonds in the history of mankind". He has called for a new mining law. Some estimate the Chiadzwa field could yield as much as \$2 billion a year in revenue. That would go a long way to bailing out the near-bankrupt government.

Civil servants, who have begun to trickle back to work after a four-week strike over pay, are threatening other forms of protest in pursuit of their demand for a basic \$630 a month in place of the average \$160 they now get. The government says it cannot afford more. Foreign banks are refusing to provide more loans until it has paid off existing debts of \$6 billion.

Outmanoeuvred by Mr Mugabe, the MDC has turned again to Mr Zuma and SADC. Judging by past performance, there is no certainty they will help. When SADC appointed the tough-talking Mr Zuma as its "facilitator" for Zimbabwe in September, the MDC was hopeful. But so far he has achieved almost nothing. On a recent state visit to Britain he seemed to espouse Mr Mugabe's cause by calling for the lifting of all sanctions against Zimbabwe—in fact, a set of measures including travel bans and the freezing of assets against some 200 people linked to ZANU-PF and associated companies—which Mr Mugabe blames for ▶▶



His God-given right to rule



► all his country's woes.

America and the European Union say they will continue to impose these targeted personal sanctions until they get firm evidence of progress toward free and fair elections. At present, the MDC would almost certainly win such a poll hands down, provided that the violence that was meted out to its supporters in the 2008 elections is not repeated. Mr Tsangirai is calling for SADC and African Union peace-keeping troops to be brought in for the whole of an election period. That would be a big step. Mr Mugabe would be loath to accept them. Probably only Mr Zuma could force him to. There is no sign yet that an early election is going to happen. But a growing number of people, in Zimbabwe and the region, reckon it is the only way out of the impasse. ■

### Another massacre in Nigeria

## An unending cycle

LAGOS

A terrible tit-for-tat is causing untold misery—and seems unlikely to end

THE number-plates in Nigeria's Plateau State declare it to be the "Home of Peace and Tourism". In the past decade this slogan has sounded ever more fanciful, as the state's capital, Jos, suffers bouts of the most brutal ethnic violence. The latest took place before dawn on March 7th, when gangs attacked villages south of the city, razed houses and hacked their occupants with machetes. The death toll is hard to know. Aid and human-rights groups say that between 200 and 500 people were killed. The police put the total at 109.

Locals say the gang members belonged to the mainly Muslim Fulani tribe, whereas the villagers were mostly from the Christian Berom group. The killings looked like revenge for a clash in Jos in January, when hundreds died, most of them Muslim, although there were Christian victims too. "This appears to be some kind of reprisal attack," said Robin Waudou, a spokesman for the Red Cross.

Jos is a tinderbox that sits in Nigeria's "middle belt", between the country's predominantly Muslim north and largely Christian south. The city and its surrounding villages witnessed similar clashes in 2001, which by some accounts left some 1,000 killed, as well as in 2004 and 2008.

Religious differences are just one factor. Africa's most populous country struggles to contain 150m people and 250-odd ethnic groups. Ethnic division is at the core of tension in Jos; religion adds fuel to the fire. Economic woes make matters worse. The Christian Berom, the majority in this area,

### The IMF in Africa

## Going green

NAIROBI

The IMF says it wants to help Africa handle climate change

THE global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. But dampened demand for African exports last year, together with the shrinking of many venture-capital funds, has now hit the continent hard after a long period of unusually perky growth. Countries south of the Sahara together grew by less than 2% in 2009. In many places income has fallen and unemployment started to rise.

So the bullishness of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he

said, was that Africa was recovering from the global crisis faster than expected.

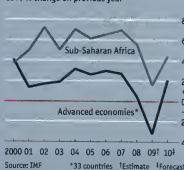
According to the IMF's own figures, sub-Saharan Africa's economy will grow overall by 4.5% this year. But that may be distorted by a large boost from oil and gold, as well as from the guaranteed aid that makes up half the budget in some countries. Kenya will struggle to grow by 3% this year and even that depends on an upswing in tourism. Nearly every African economy will grow more slowly than the 6% that many development economists reckon is the minimum to enable countries with rapidly increasing populations just to stand still.

"When America sneezes, Africa's tuberculosis gets worse," Kenya's prime minister, Raila Odinga, told a sympathetic Mr Strauss-Kahn, as he passed through Nairobi to herald a new IMF Green Fund. Full details will be released in April, but Mr Strauss-Kahn said the fund would focus on mitigating climate change in Africa. A figure "rising to \$100 billion by 2020" was mentioned, but this made some people wonder whether the IMF was simply trying to take over responsibility for the \$100 billion that rich countries vaguely promised to spend on poor ones at December's climate-change conference in Copenhagen.

Should so vast a dollop of cash become available, Mr Strauss-Kahn hints it would be divvied up along the lines of the IMF's existing quota system. He told Africans they would be hit first and hardest by climate change, so the need for the Green Fund was urgent.

### A black phoenix

GDP, % change on previous year



represent the economic success of settlers who are mainly Muslim, especially those who buy land. "Those who live here feel they're being edged out," says a resident.

The latest attacks will test Goodluck Jonathan, Nigeria's acting president, who had power thrust on him last month due to the three-month absence of the country's ailing head of state, Umaru Yar'Adua, in a Saudi clinic. Mr Yar'Adua recently returned but has yet to be seen in public.

Rather reticent as vice-president, Mr Jonathan is becoming more forceful. He put security forces on high alert and sent soldiers to the villages within hours of the attacks. The army was dispatched to Jos after the January clashes. The police say they have arrested some 200 people.

Among other moves, Mr Jonathan has hired a new national security adviser. But this was more about the national power

game than the Jos massacre. The acting president's political base has recently strengthened, though he remains a largely unknown entity. Mr Yar'Adua's camp is losing ground with each day that he fails to reappear. Abdullahi Sarki Mukhtar, who was sacked by Mr Jonathan as security adviser, was a key ally of Mr Yar'Adua.

There is scepticism in Jos that the authorities will bring a lasting peace. A curfew has been in force for more than a year. Those arrested after previous clashes have rarely been convicted. A probe set up by Mr Yar'Adua into the killings of 2008 failed to have any serious effect, as did earlier inquiries. Many residents say that local politicians stir ethnic and religious feelings to win votes. "They align themselves with people to get what they want," says Patience Dassah at the League for Human Rights in Jos. ■





The  
Economist

# Older and wiser

A special report on Germany  
March 13th 2010

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# Older and wiser

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United Germany is becoming more comfortable in its skin. Page 15



For all its stolid reputation, Germany has become surprisingly flexible, says Brooke Unger. But it needs to keep working at it

ULM, like many German towns, is arrayed around a central church like an expectant congregation. Its Gothic spire is the tallest in the world. The city is also famous for being the birthplace of Albert Einstein. But Ulmers do not live in the past. They are too busy making things, or working out how to make them better, and dispatching them to the rest of the world. The family-owned *Mittelstand* firms that cluster in and around this modest town alongside the Danube river were among the prime beneficiaries of Germany's export boom, the main source of growth until the world economy slumped in late 2008.

That disaster has not shaken Ulm's self-confidence. Since the financial crisis Germany's economy has shrunk more than most, by around 5% in 2009 (see chart 1, next page). That of Baden-Württemberg, Ulm's home state, dived by as much as 8%. But the region around Ulm itself held up better than the rest of the state because its economy is diversified, reckons Otto Sälzle, managing director of the region's chamber of industry and commerce. Some local firms are in hard-hit industries like cars and machine tools but many are not: Ulm also makes pharmaceuticals and James Bond's favourite firearm, the Walther PPK. The region's unemployment rate rose from 3.3% to 4.6%, still well below the national rate. "We are the strongest region in Germany," crows Mr Sälzle.

Feistiness is an all-German trait these days, bolstered rather than subdued by the

crisis. Although Germany's economy has plunged, its unemployment rate has so far barely budged, a "German miracle", economists proclaim (see chart 2, next page). As the global economy recovers, Germany's will do better than the rest by selling cars, chemicals and capital goods to markets such as China, India and Brazil. "Germany is still outfitter to the world," says Bert Rürup, a former head of the government's council of economic "wise men".

The crisis seemed to discredit the "Anglo-Saxon model" of growth based on financial wizardry and property bubbles—and vindicate the German one, in which workers co-operate with bosses, managers invest for the long term and manufacturing holds pride of place over services. The chancellor, Angela Merkel, is promoting a "charter for international economic management" based on Germany's "social-market" principles. Crisis-prone members of the euro zone could cure their woes by becoming more like Germany, many Germans think. Its hottest export could be the German model itself.

### Repeat after me

Germany does have some important lessons to teach the world, as this special report will explain. But the idea that Germany has got everything worked out requires some big qualifications. It has an ageing population, a growing share of which is either of non-German origin or poorly educated, or both. And Germany's ▶▶

#### Acknowledgments

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#### A list of sources is at

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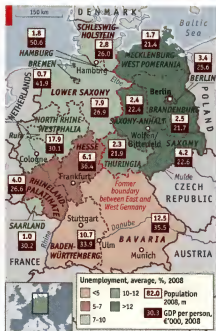
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►towing export surpluses are at risk because its trading partners cannot sustain deficits for ever. Strikingly, too, the German model is no longer all that German. Over the past decade the country has rewritten its recipe for success, incorporating many foreign ingredients, including some from the much-maligned Anglo-Saxons.

Ulm shows that a springy economy makes the challenges easier to tackle but does not remove them. People with a "migration background"—immigrants, their children and grandchildren (including ethnic Germans who arrived after the fall of the Berlin Wall)—account for 37% of the city's 116,000 inhabitants and a majority of its children under ten. Those who came as "guest workers" in the 1950s and 1960s quickly adopted Swabian habits of thrift and hard work, says Ulm's mayor, Ivo Gönner, but "the kids have problems." Many are unsure where they belong, some have not mastered German.

Ulm and Neu Ulm, its Bavarian sibling across the river, became briefly notorious in 2007 when police captured would-be terrorists who were on the verge of blowing up American installations in Germany. Two of the suspects, one a convert to Islam, belonged to radical outfits in the twin towns. These have nothing to do with the established immigrant community, Mr Gönner insists. But foreigners are often associated with the threat of terrorism.

A bigger worry is what will happen as ageing Swabians retire. By 2025 a quarter of the workforce will be older than 55, compared with 15% now, and the number of school-leavers will shrink by a third. Within ten years the region will be short of 60,000 workers, 7,500 of them engineers, the soul of the *Mittelstand*. Mr Sätzle wonders whether the next generation is ready to step in. "We've imported the educational problems of Turkey and Italy," he says.



Integrating young immigrants into the workforce is the "biggest challenge by far".

Much therefore depends on how gracefully Germany becomes greyer and browner. Other countries have even fewer babies, but none "has such long-term experience in low fertility", notes Reiner Klingholz of the Berlin Institute for Population and Development. The number of children per woman dropped below the replacement rate of 2.1 in the 1970s. The women born then in relatively small numbers are in turn having small families. Until 2002 Germany let in enough immigrants to stave off demographic decline, but the influx has slowed. In 2008, for the first time in a quarter-century, more people left the country than came in.

The newcomers are not as well educated as the native Germans, but they have more babies. Ulm is not unusual. In some towns in the Ruhr region the share of under-fives with migrant backgrounds tops 60%. Overall, they account for a third of the youngest children. By mid-century half the population will have non-German origins, says Klaus Bade, head of the Expert Council for Integration and Migration in Berlin.

By then Germany will be a different sort of place. It will have 8m-14m fewer people than it does now, and perhaps a smaller population than Britain and France. If Turkey joins the European Union Germany could be pushed into fourth place, the spot Italy occupies now. Germany's economy will shrink relative to

that of its neighbours. If it is not careful, so will its living standards. It will have more pensioners and fewer workers. One possible future is that it will become less innovative and less productive, and indeed less German in ways it would not welcome. But that is not inevitable.

### The great thaw

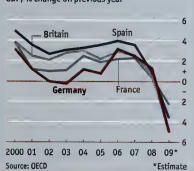
Germany strikes people as being set in its ways. Revolutions, whether of the Thatcherite sort in Britain or the spasms of discontent in France, hold little appeal. From history's convulsions Germany has learnt to prize a quiet life. The fall of the Berlin Wall in 1989 and unification a year later was excitement enough for a while. Change, if it must happen, is painstakingly negotiated by everyone concerned, from political parties to the governments of the 16 *Länder* (states) to the "social partners" (trade unions and employers' representatives).

Yet the country has spent the past decade smashing its own taboos. In 1999 it sent its armed forces into battle for the first time since the second world war as part of a NATO operation to protect Kosovo from Yugoslavia. In the same year Germany reluctantly surrendered the D-mark, an anchor of its post-war identity, in favour of the euro, with notes and coins appearing in 2002. In 2000 the government changed the definition of what it is to be German, which had been based on bloodlines since imperial days, by giving non-ethnic Germans born in the country a right to citizenship. Meanwhile "Deutschland AG", the clannish system of cross-shareholdings among banks and enterprises, was killed off by Anglo-Saxon notions, and no one wants it back. That brought "more shareholder democracy into the real economy", says Frank Mattern, who heads the German operation of McKinsey, a consultancy.

More contentious than all of these was ►

### Growth plunged...

GDP, % change on previous year



### ...but jobs held up

Unemployment, % of labour force





► a series of economic reforms prompted by stubbornly high unemployment and intimations of demographic decline. Agenda 2010, the handiwork of a left-wing coalition of Social Democrats and Greens in 1998-2005 led by Gerhard Schröder, tried to tackle many of Germany's economic maladies. It made joblessness more painful but provided more support for jobseekers. That, along with buoyant world trade, seemed to help. Unemployment dropped from 5m in 2005 to 3m in 2008; in the last two years of the upswing long-term unemployment fell by 40%.

But Agenda 2010 both symbolised and contributed to changes in economic and social relations that Germans find unsettling. New forms of work and welfare spread: "mini-jobs", temporary employment and, most menacingly, Hartz IV, the handout that awaits anyone who does not find a job quickly. Workers in western Germany were already scrambling to compete with more flexible eastern Germans and cheap labour on Germany's doorstep in central Europe, and Agenda 2010 increased

the pressure. This did wonders for competitiveness, sharpening Germany's dependence on exports, but wages stagnated and the middle class shrank even as high-income earners enjoyed a tax cut. Germany's income distribution was fast becoming less equal.

#### Punishing the messenger

In the 2005 election voters evicted Mr Schröder from power and demoted his Social Democratic Party (SPD) to second fiddle in a grand coalition led by Mrs Merkel's conservative Christian Democratic Union (CDU). Disgruntlement with Mr Schröder's reforms fuelled the rise of the ex-communist Left Party, largely at the SPD's expense. Mrs Merkel proved to be more social democratic than her combative predecessor. She avoided giving offence, sought consensus, inched reform forward when she could and back when she thought she had to. In last September's elections she was rewarded with a victory that allowed her to boot out the SPD from her government and form a more coher-

ent, supposedly more reform-minded coalition with her preferred partner, the liberal Free Democratic Party (FDP).

Germany may not need another abrupt shake-up. It no longer suffers from an arthritic labour market, an obese state or a suffocating tax burden. As the labour force shrinks, the number of jobs is likely to become less of a worry than the number and quality of people available to fill them. But this special report will show that plenty of problems remain to be solved. Between 2000 and 2009 the share of Germans who considered society unfair jumped from 54% to 71%. The state is better at supporting idle citizens than preparing them for today's world of work. Social welfare is not yet ready for the coming demographic storm. The economic recovery is still shaky and, if it lasts, will be followed by years of fiscal belt-tightening. Unless export surpluses keep rising, Germany will need to find new sources of growth. Mrs Merkel's job is not to haul Germany out of a ditch but to retune the engines of its success—in some ways a harder task. ■

## Inside the miracle

How Germany weathered the recession

"THIS is what we love," exclaims Jan Stefan Roell, presenting an intricately worked ingot of gleaming steel as though it were a piece of jewellery. It belongs somewhere in the innards of a testing machine made by Zwick Roell, the firm he owns. One model rips the eyes off teddy bears (to see if children can), another pokes computer keyboards. Mr Roell wants the visitor first to admire the part, next the Swabian craftsmen who fashioned it and then the German genius for making expensive and indispensable things. His customers expect German thoroughness, he says.

Ulm-based Zwick Roell, which has 950 employees and sales of €150m (\$202m) a year, is a typical *Mittelstand* firm. Until the 1930s it made buttons from cow horn imported from Argentina, but when plastic took over it switched to testing machines. Like many *Mittelstand* enterprises Zwick works backstage, making things that are used in making other things. The thousands of Zwick-like firms that constitute the engineering sector are a cornerstone of Germany's industrial economy. They em-

ploy nearly 1m workers, more than any other industry, and export almost 80% of their production. Often the product is not merely a machine, but also a panoply of services that go with it.

Last year they took a beating. Sales plunged by a fifth to €160 billion; Zwick fared no better. The wonder was that engineering firms shed a mere 40,000 jobs. "In narrow commercial terms we can't justify that," says Hannes Hesse, head of the Association of German Machine Builders in Frankfurt. His members are betting that demand will bounce back, but it is a gamble. Three possible misfortunes could scupper recovery, he reckons: another terrorist attack, another tremor in the banking system and a failure by banks to supply enough credit to his members or their customers. The jobs miracle could yet falter.

The last time Zwick made a regular employee redundant was in 1992. That is because the workforce reacts to economic shocks like a well-engineered suspension system. When the crisis hit, Mr Roell shed some workers on temporary contracts and cut the working hours and pay of regular

employees. When such a deal is negotiated with the works council it is binding on the workforce, a "huge advantage", he says. He invites the council's chairman to every management meeting.

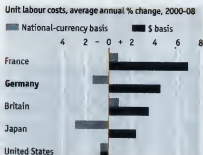
This symbiosis owes something to the intimate scale of a *Mittelstand* enterprise, but it also relies on an institutional machine as intricate as one of Zwick's testing contraptions. Mr Roell recruits skilled workers through an apprentice system with roots in medieval guilds. He manages labour relations within a framework set by negotiations between employers' associations and trade unions. This arrangement survives because Germans have a knack for changing the way something works yet keeping its basic structure intact.

#### Slowly but surely

Twenty years ago it was a byword for rigidity. Wages and working conditions were set in sector-wide negotiations that allowed individual firms little scope for variation, tying employers' hands. Outwardly little has changed, but the contracts have changed character. In the 1980s "they ►►



## Surprisingly nimble



Source: US Bureau of Labour Statistics; OECD



► were like the Bible," says Martin Wansleben, chief executive of the German Chambers of Industry and Commerce. "Now they provide important guidance."

This was not a bloodless coup. Many East German enterprises, caught between low productivity and paying D-mark wages, shunned sector-wide labour contracts. High unemployment, the threat of production moving to central Europe and Mr Schröder's reforms cranked up the pressure. As unions lost members, employers defected from the industry federations. Only half of west German private-sector workers are covered by sector-wide contracts, against two-thirds in 1998, says Reinhard Bispenko of the Hans-Böckler-Stiftung, a think-tank close to the trade unions.

## Give and take

And even when they do, the contracts are ridden with "opening clauses". At firm level bosses and works councils formed "alliances for jobs" under which workers sacrificed pay to secure employment. Working-hours accounts allow companies to adjust the amount of work done to peaks and troughs in production without paying overtime. This flexibility powered exports, lifted economic growth and fattened profits. It enriched everyone, the unions grumble, except workers. Wage rises have lagged behind productivity gains and inflation since 2000, driving down unit labour costs relative to those of Germany's competitors (see chart 3).

Though bosses readjusted the settings in their favour, they did not smash the machine. In some ways *Mitbestimmung*, workers' rights to influence decision-making, was strengthened. Job alliances, for example, draw works councils into company strategy. In December workers at Mercedes's Sindelfingen factory near Stuttgart went on strike after the company said it would shift production of its C-Class cars to Alabama, so Mercedes promised to maintain employment at the plant until 2020. That pledge "would be worth nothing without new products and investments", points out Jörg Hofmann, head of the Baden-Württemberg branch of IG Met-

all, the trade union for the industry. Top of the reformers' hit list is Germany's rigid regime for protecting workers from dismissal. But without that protection workers would not allow hours to pile up in working-time accounts, says Alexander Herzog-Stein, also of the Hans-Böckler-Stiftung.

The crisis has drawn the two sides closer together. Both are determined to defend Germany's export success. It helps that they can blame the recession on outsiders and bankers rather than on each other. More important, employers have so far kept their side of the flexibility bargain by keeping up employment.

Much of the credit for Germany's jobs miracle goes to *Kurzarbeit*, a scheme under which government hands out subsidies to firms that retain surplus workers, but there is more to it. Joachim Möller, head of the Institute for Employment Research (IAB), part of the Federal Employment Agency, argues that flexible working hours have been an important factor in holding up employment. When the recession hit, workers had built up a large number of extra hours in their working-time accounts that could be wound down as work dried up. But firms were also looking ahead to a prospective scarcity of labour.

In 2009 the number of people of working age in western Germany shrank for the first time. The firms hit hardest by the crisis were precisely those that had the biggest problems recruiting skilled labour before it. "Most companies will see a significant impact" from a shortage of qualified labour by 2014 or 2015, says Harald Krüger, head of personnel at BMW, a Munich-based carmaker. Despite the crisis, BMW was careful not to cut its annual intake of 1,000 apprentices.

All this provides a perfect setting for Mr Roell to indulge his passion for profitable perfectionism. His machines are four times as expensive as competing testers made in China, his second-biggest market. The company actually makes its own boxes so that the gear arrives in perfect condition. Although Mr Roell has competitors, he acknowledges no peers. Where his main American rival prefers standard sol-

utions, Zwick's engineers go for a tailor-made approach. The complexity-loving culture on the factory floor is shaped by Germany's "dual system" of vocational training, which combines classroom learning with hands-on experience. At Zwick Roell it is reinforced by a Swabian passion for inventive tinkering, or *tüfteln*. "I can delegate things that in other countries need supervision," he says.

It is a pact that depends partly on the owner not appearing to be too greedy. Mr Roell reinvests two-thirds of the firm's profits. The Mittelstand survives "because families don't want the money", he says. "They want the business to continue." And they are not easily put off: "If people tell you tax is a big issue they haven't done their homework." Bureaucracy is a bigger problem. Mr Roell grumbles that he has to install internal safety doors on his lifts, "ridiculous stuff which keeps me from doing my job". All in all, though, he feels that Germany's skilled workers and its infrastructure make it "a wonderful place to do business".

But the success of firms like Zwick Roell is not synonymous with Germany's. Manufacturing's share of output and employment has dropped, though it remains larger than in most competitor countries (see chart 3). Workers with permanent factory jobs have done relatively well recently. Since 2005 the pay of IG Metall's members went up by a total of 14%, says Mr Hofmann—less than the rise in productivity, but still "satisfactory". The price of flexibility was higher for workers in weaker sectors or with "atypical" contracts. Schlecker, a chain of discount chemists, recently shut down some shops and sacked the workers, but at the same time opened bigger ones with temporary staff at lower pay. Public outrage forced a retreat.

## Let's have a party

Stagnant pay and domestic consumption have increased Germany's dependence on exports. Between 2004 and 2008 its net exports accounted for nearly 40% of GDP growth. Its trade surpluses are the mirror image of deficits run by countries now no longer able to afford them, including sever-

al of its partners in the euro zone. Germany may not have been responsible for the headlong rush into consumption that caused the imbalances but, says Thomas Mayer, Deutsche Bank's chief economist, "we were caterers to the party." It is still in progress. Between the mid-1990s and 2007 current-account imbalances rose from 2% of global GDP to 6%. They have since eased back to 4%, but with public rather than private spending fuelling demand. That cannot last, Mr Mayer thinks.

Germany, he feels, should therefore throw its own party by rebalancing growth away from exports and towards domestic demand. Unusually, this puts the Deutsche Bank economist in the same camp as the trade unions, though their remedies differ. The unions want higher wages, backed by a statutory minimum wage, which would boost domestic demand and suck in more imports. Mr Mayer would encourage more low-wage jobs, which would beef up Germany's services.

But not that many Germans are worried about the current-account surpluses. The country is getting older, so it makes sense for it to accumulate investments in more youthful places. The surpluses could be smaller, perhaps, but the main concern is keeping Germany in medal position among world exporters. If America and Europe buy less, China, India and Brazil will buy more. The next generation of export blockbusters is already coming up, as the next section will show. ■

## The green machine

A second wind for German industry?

THE Roding Roadster, a sports car unveiled at last September's Frankfurt motor show, has a powerful motor and lightweight construction that promise a thrilling ride. But at Munich's Technical University (TUM), which the Roding's designers attended, there is even more buzz about the Tesla, a battery-powered car from California. It shows that electro-mobility "could be fast and fun", says Markus Lienkamp, who teaches car technology at TUM. Annoyingly, Tesla opened a dealership in Munich on BMW's doorstep.

Germany invented the modern internal-combustion engine and intends to be a leader in any future automotive technology. It has helped to spread the idea that modern life can be transposed into planet-friendly technology. The government's promise to put 1m electric cars on the road by 2020 is one of many initiatives to ensure that Germany cashes in. So Tesla's brash entrance into the green enclosure was met with a mixture of derision and fear. Surely slapdash American engineering will be put to shame by the inventive perfectionism of the German *Tüftler*, car folk mutter. But that is a hope, not a certainty. Mr Lienkamp welcomes the threat. "When a German engineer gets angry," he advises, "watch out."

Germany is confused about its technological identity. On the one hand it embraces the new. It ranks fourth among countries in the number of patents filed per person and comes close to the top in international surveys of innovation. On the other hand it has few enterprises emerging from garages to wreck everyone else's business model. The closest German equivalent to Google is SAP, a software

firm that is pushing 40. Germans who want to convert bright ideas into riches go to America, says McKinsey's Mr Mattern. Only 4% of the working-age population is engaged in early-stage entrepreneurial activity, according to the Global Entrepreneurship Monitor, against America's 8%.

How much does that matter? Germany has done pretty well with cars, machines and chemicals, medium-tech products as measured by the share of turnover invested in research and development (R&D). Just because innovation is hidden does not mean it is not there. "A BMW has more software than the space shuttle," says Manfred Broy, a professor of information

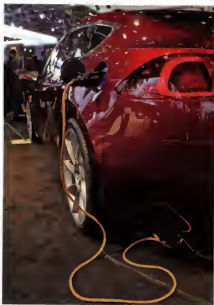
technology at TUM. Germany is in pole position in several fast-growing "green tech" areas, including renewable energy and automotive efficiency. But the arrival of the Tesla shows that Germany could still lose the race.

### Sharpen up

Decision-makers are haunted by the thought that the country's only marketable raw material is brainpower and that the number of brains is shrinking. Germany underspends on education and R&D (see chart 4, next page), and just a fifth of scientists and engineers are aged 25-34, the lowest share in the EU. As catalysts of new ideas, German universities lag behind American and British ones. Venture capital had a late and inauspicious start, just before the dotcom bubble burst in 2000, which stunted its subsequent growth.

Mrs Merkel, herself a physicist, has attended to these deficits with methodical doggedness. Her 2005-09 grand coalition stepped up support for government-funded research institutes and launched an "excellence initiative" to promote elite universities and programmes. Her new coalition plans to spend an extra €12 billion on education and to offer a big tax break for R&D. "We've sent a signal on education and research that no one else has sent," says the education minister, Annette Schavan.

Much of this money will flow into realising Germany's biggest idea: that German engineering and environmentalism will join forces to provide industry with a second wind. "Whoever is first to conquer green-tech markets will have an enduring export advantage and create jobs," Mrs Merkel has declared. ►►



Tesla against Tüftler

► Green tech is a broad and slippery concept. Just about anything can be done more cleanly, and it would be surprising if Germans were not the first to do it in industries they lead. The German government has been sending steady green signals to the market for years. It passed a trend-setting recycling law in 1991 and was a pioneer of "feed-in tariffs", obliging utilities to buy power generated by renewable sources at prices that reflect their higher costs. Now renewables account for 15% of electricity and German manufacturers of solar cells and wind-power turbines are among the world's leaders.

### The place to be

In energy-saving fixes for cars with traditional engines, such as lightweight materials and stop-start brakes, "Germany is worldwide absolutely in front", says Christian Malorny of McKinsey. Even the *Mittelstand* has joined the general green mobilisation, in part because its German customers demand it. Licon, which makes machinery for the car industry, puts energy-storing brakes on its own machinery.

Using a broad definition, Roland Berger, a consultancy, reckons that the global green-tech market was worth €1.4 trillion in 2007 and is likely to grow to €3.1 trillion by 2020, outstripping vehicle production. Germany is well positioned, with market shares of 30% in power generation and 20% in "sustainable mobility". Green tech could create 1m new jobs by 2020. "This is a good and growing story," says Roland Berger's Torsten Henzelmann.

But Mrs Merkel's hopes of conquering green markets are optimistic. Competition

there is as hot as anywhere else, as the solar industry is already finding out. The Chinese have jumped in with lower prices. Last year demand slumped along with prices of silicon, the main raw material for solar cells, dealing a double blow to firms locked into higher-priced silicon contracts. Now the government wants to accelerate the cuts in the feed-in tariff for solar power, which is four times the going rate for electricity. Q-Cells, the biggest firm in "Solar Valley" in the eastern German state of Saxony-Anhalt, has already shifted some production to Malaysia. High-value-added photovoltaic products will be made in Germany, says Q-Cells' Marko Schulz, but simple products will move abroad.

It might seem odd that makers of fast cars for people unfazed by the cost of fuel should worry about retooling them for a greener age, but the Germans reckon greenery plays to their strengths. Besides, they have little choice. Under EU law car-makers have until 2020 to reduce CO<sub>2</sub> emissions significantly. BMW is determined that this should cause no loss of

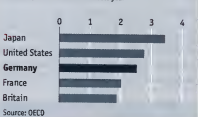
*Fahr Freude* (driving joy). They use the catchphrase "EfficientDynamics" to describe their efforts to reconcile the two. These are mostly "easy things" like fiddling with aerodynamics or pumping coolant "on demand", says Hans Rathgeber, BMW's head of vehicle architecture. Improvements to conventional cars will go most of the way towards meeting the EU emissions targets, says McKinsey's Mr Malorny. The final stretch will require adoption of radically new technologies, such as battery power.

Will German carmakers master a technology that came of age as a power source for video games? The answer matters not only to the industry but also to the country's future as an innovator. BMW says that electric vehicles will not replace conventional cars or hybrids for the foreseeable future: their range is too short and they take too long to charge. But the company will be ready. It is developing new "mobility concepts" for large cities. Last year it signed an agreement with Bosch, a German parts-maker, and Samsung, a Korean electronics firm, to buy batteries for an urban electric car. What makes a BMW is not the fuel source or even the engine. According to Ulrich Kranz, the company's resident futurologist, cars are "a huge interactive system" that BMW manages.

But even futurologists can be surprised. Profitable ideas can come from anywhere. That is why Mr Lienkamp at TUM leads a team that is developing its own ideas for a commercially viable electric car. An innovative society is one that hedges its bets by having as many thoughts—and thinkers—as possible. ■

### Middling

Research and development spending  
% of GDP, 2008 or latest available year



## Much to learn

Germany's education system is a work in progress

GERMANY invented the modern university but long ago lost its leading position to other countries, especially America. These days the land of poets and thinkers is prouder of its "dual system" for training skilled workers such as bakers and electricians. Teenagers not bound for university apply for places in three-year programmes combining classroom learning with practical experience within companies. The result is superior German quality in haircuts as well as cars. Dual training "is the reason we're the world export champi-

on", says Mrs Schavan, the education minister. *Azubis* (trainees) acquire not just a professional qualification but an identity.

But the dual system is under pressure. The number of places offered by companies has fallen, often falling short of the number of applicants. Almost as many youngsters move into a "transitional system", a grab-bag of remedial education programmes designed to prepare them for the dual system or another qualification. Often it turns out to be a dead end, especially for male immigrants.

And given that Germany produces far fewer university graduates than many comparable countries, some wonder whether the dual system is producing the right qualifications for the knowledge-based professions of the future. "The dual system is for 200 years ago," says Alexander Kritikos of DIW, a research institute in Berlin. "You have to ask: is it still the right system if we want to be innovative?"

The system is governed by a consortium representing almost everyone who counts: the federal and state governments, ►

► the chambers of commerce and the unions. It regulates access to 350 narrowly defined trades. You can train to become a goldsmith, or if you want to manage a McDonald's you learn *Systemgastronomie*. Baking bread and pastries are separate disciplines. Schools outside the system may not train *Azubis* for a reserved trade.

It makes sense to combine theory and practice, says Heike Solga of the Social Science Research Centre in Berlin, but the dual system is rigid and discriminatory. And because the trades are so specialised, getting a job at the end can be hard. In 2005 more than a third of graduates were unemployed a year after completing their course. Ms Solga thinks the number of trades should be greatly reduced, the early stages of training made more general to make switching easier, and the right to train *Azubis* opened up to a wider range of schools. "It should not be about where you learn but what you can do," she says.

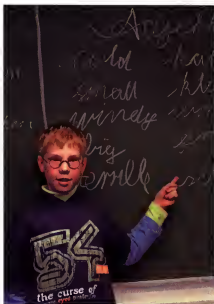
#### Once a scholar, always a scholar

The type of secondary school a German attends, the degree he obtains and the exams he passes classify him for life. The distinctions are made earlier and more rigidly than in other countries. "Nowhere are credentials as important as in Germany," says Stefan Hradil, a sociologist at the University of Mainz.

Many children are typecast at age ten, which is when most German states decide which of three kinds of secondary school he or she will attend. Traditionally the *Hauptschulen*, the lowest tier, were the main suppliers of recruits to the dual training system, but they gradually became dumping grounds for children who could not keep up. Upon leaving (sometimes without passing the final exam), nearly 40% of these students find themselves in the precarious transitional system. The dual system now draws its intake mainly from the middle-grade *Realschulen*, the traditional training ground for white-collar workers, and even *Gymnasien* (grammar schools), the main route to university.

The state bureaucracy acknowledges four career paths: the simple, middle, elevated and higher services. Bureaucrats in one category can rarely aspire to careers in a higher one. Teachers in *Gymnasien* enjoy a higher status than those at other schools, and have their own trade union, the grandly named *Philologenverband*. A *Meisterbrief*, the highest vocational credential, is not just a badge of competence but in some trades a keep-off sign to competitors.

Germans are now asking themselves



How am I doing?

whether this way of doing things is fair, and whether it is working. Although income is distributed relatively equally, opportunity is not. "Germany is one of the most rigid among the relatively advanced societies," says Karl Ulrich Mayer, a sociologist at Yale University.

Germans remember the economic miracle years of the 1950s and 1960s nostalgically as the era of the "rising generation". But that growth lifted everyone without changing their relative positions much. And with inequality rising, that rigidity seems less acceptable. Renate Köcher of Allensbach, a polling firm, says that lower-class Germans are afflicted with "status fatalism", hopelessness about prospects for improvement for them and their children.

Teenagers' performance in international tests is more strongly correlated with family background than in almost any other country, says Ludger Woessmann of Ifo, a research institute in Munich. Even with the same marks, a child whose parents went to university is four times as likely to attend a *Gymnasium* as one born into a working-class family.

But social exclusiveness has not produced excellence. The 2001 "PISA shock"—a set of OECD figures which re-

vealed that German 15-year-olds scored in the bottom third among schoolchildren from 32 countries in tests of reading and maths—has not worn off. Overall, Germany's performance remains mediocre. More than a fifth of 15-year-olds cannot read or calculate properly; 8% of teenagers drop out of school.

#### A war of ideologies

There is "no consensus on the content and goals of education", says Mrs Schavan. The arguments extend from primary schools to universities and are as much about tradition and status as about learning. Many Germans are loth to scrap a system so closely identified with the country's economic and cultural success.

A controversy now raging in Hamburg, a port city and one of Germany's smallest states, illustrates the strife. In 2008 the Christian Democrats, normally champions of the three-tier high-school system, formed their first state-level coalition with the left-leaning Green Party. The Greens won agreement for a radical school reform, mainly by extending primary schooling (and thus shortening secondary schooling) by two years. The idea was that if streaming children by ability is done later, the slower ones will have a better chance of doing well and the brighter ones will at least fare no worse.

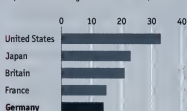
Middle-class parents of *Gymnasium*-bound children rebelled. The "Gucci protesters" collected more than enough signatures to get the reform put to a referendum. The parents fear that their children will be dragged down by academic laggards in the name of social justice, although such evidence as is available points in the opposite direction. The rebellion evokes wider sympathy. In conservatives' eyes, Hamburg's government is laying siege to a noble and ambitious idea of education that is still possible within the state school system.

Almost any education reform offends somebody. In a move to strengthen federalism in 2006, the federal government was banned from investing in areas reserved for the 16 *Länder* (including education), which makes serious reform even harder. But the immovable object is being battered by irresistible forces, including demographic change and the demands of the economy. Progress is halting but the direction is fairly clear: the system is being streamlined, schools are being made more accountable and the hierarchy is becoming less rigid. As with so many things in Germany, change proceeds by sleight of hand.

The 2001 PISA results, which not only ►

#### Not enough thinkers

Population\* with degree-level education, % of total



Source: OECD

\*Aged 25-64



► compared Germany with other countries but individual German states with each other, put state education ministers under pressure. The states that performed worst narrowed the gap with the best performers by half within six years, says Mr Woessmann. Both states and the federal government are sharpening their instruments for measuring schools' performance. Starting in 2005, the states for the first time submitted to binding quality standards for secondary schools. "For Germany this is a paradigm shift," says Jürgen Baumert, head of the Max-Planck-Institute for Human Development in Berlin.

Paradigms in the way schools are managed do not suddenly shift, but they do evolve. School leaders in some states are gaining a modicum of autonomy, including the freedom to choose their own teachers. Though half-day schools are still the norm, the proportion offering an after-

noon programme of some sort doubled between 2002 and 2006.

The three classic tiers are coalescing into two, as is happening in Hamburg and in Schleswig-Holstein, partly because the number of children is shrinking. All Hamburg's second-tier schools will offer the *Abitur*. North Rhine-Westphalia's CDU-FDP government last year enacted a law requiring teachers in lower-tier schools to be trained to the same standard as Gymnasium teachers.

With the number of young people shrinking and the demand for skills rising, states are making it easier for dual trainees to get bachelor's degrees, eroding the caste distinction between vocational and university training. BMW now sends a quarter of its apprentices to universities of applied science, the practice-oriented junior siblings of traditional universities, which account for about a quarter of students in

higher education. More than 40% of the students at such universities come from schools other than *Gymnasien*.

The universities are embroiled in a row of their own. They have given up the revered *Diplom* to comply with Europe's Bologna process, which mandates (mostly shorter) bachelor's and master's degrees. This is meant to make the German system compatible with others in Europe (and encourage students to move around), and to award more useful degrees. Hard-core traditionalists oppose the reform in principle, but the main objections are its sometimes sloppy implementation and the scant resources available to universities in general.

Too much of German education remains hidebound. "The rule is still the teacher standing in front of a class of 30 and the kids taking notes," says Kaija Landsberg of Teach First, an education charity. Immigrant children suffer most. ■

## What a waste

Germany scandalously underuses immigrants and women

HEINZ BUSCHKOWSKY, the mayor of the Berlin district of Neukölln, is famous for being blunt. He is in charge of an ethnic goulash: 140,000 of his 305,000 constituents are Turks, Arabs, Yugoslavs or other migrants. The local unemployment rate is 26%, and probably twice that among the immigrants. Work disappeared when subsidies to industry were withdrawn after the fall of the Berlin Wall. But Neuköllners are all too willing to live off Hartz IV social-security benefits, which provide a family with children with enough to get by. "Long-term welfare paralyses people," Mr Buschkowsky observes, sounding more like an American Republican of the 1980s than a leading member of Berlin's Social Democratic Party. Children grow up thinking "money comes from the state," drop out of school and then raise children who repeat the cycle.

Neukölln's problems loom large partly because it is in Berlin which, unlike Paris or London, is poorer than the country it governs. In Ulm, which has more factories, Hartz IV is a less appealing option. Still, Mr Buschkowsky's message matters anywhere in Germany. He lambasts not only welfare dependency but also conservative shibboleths like the three-tier high-school system ("once at the bottom, always at the

bottom") and paying women to stay at home with their children (he thinks the money would be better spent on pre-school education so that immigrant children could learn proper German). He is equally impatient with liberal multiculturalism. Immigrants have a chance, he says, "when they not only live in Europe but become European".

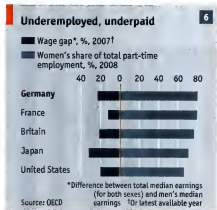
Neukölln may be untypical, but it raises questions that preoccupy the whole country. How much welfare is too much? When should the state assume responsibility for looking after children? How can an ageing

society make the most of underemployed immigrants and women? Should immigrants become Germans, and if so, what sort? These questions are interconnected.

For different reasons, immigrants and women play a disproportionately small role in Germany's labour force. Many immigrants never recover from their start in an "education-free monoculture", as Mr Buschkowsky puts it: a home where family members and cartoon characters speak a language other than German, a spell in a *Hauptschule* followed by the transitional system and a life on the dole. Nearly one-third of Germany's Turks, the largest group of immigrants other than ethnic Germans, have no secondary-school diploma, and just 14% qualify to go to university. Some 16% are dependent on welfare, twice the share of native Germans. In 2005, the last year for which data are available, the unemployment rate among Turks was 23%, compared with 10% for native Germans.

### Underworked, underpaid

Women take a different route to underemployment. Their problem is not education: they make up a majority of those who pass the *Abitur* as well as of university students. The trouble starts afterwards. The wage gap between men and women is 23%, ►►





► among the widest in the EU. That is partly because though women's participation rate is above average for Europe, many of those women work part-time (see chart 6, previous page). The "one breadwinner model" of family life—now updated to 1½ breadwinners—remains the cultural norm in west Germany. In a 2006 survey 27% of women aged 15 to 39 in that part of the country agreed with the statement that "family life suffers when the woman has a full-time job." In east Germany the figure was only 9%; in France 13%.

Institutions have not caught up with the majority of west German mothers who would contemplate full-time work. Child care remains scarce. Just 8% of German children aged two or younger are in crèches for more than 30 hours a week; in France the proportion is 17%. For slightly older children the difference widens. Unsurprisingly, in Germany only 17% of mothers with two or more children work anything like full time, whereas in France more than half do.

Germany as a whole is underemployed. Germans in work put in an average of 1,430 hours in 2006, the third-lowest rate in the OECD. Even after the labour-market reforms, long-term unemployment remains well above the OECD average. More than half a million immigrants cannot do the jobs for which they trained because Germany does not recognise their qualifications, a case of credentialism gone wild. A country in demographic decline cannot afford such waste. By 2035 Germany's GDP per person will fall by 8-15% relative to that in other rich European countries and in America, calculates Axel Börsch-Supan of the Mannheim Research Institute for the Economics of Ageing.

To head off such relative decline, Germany needs to re-engineer not only the welfare state but its attitudes towards immigrants, women and people over 60. Against its conservative instincts it has made a start. In the past ten years it has done more to integrate minorities than in the previous 40, says Klaus Bade, the immigration scholar. When "guest workers" from Turkey, Italy and Greece flooded in to alleviate labour shortages in the 1950s and 60s, Germans thought they would eventually leave again; during the 1980s the government tried to pay them to go. Now it accepts that Germany is an "immigration country". A citizenship law passed in 2000 which said that people not born German could become so was followed in 2005 by an immigration law that inched open the doors for skilled foreigners.

The government has maintained a cautious momentum, balancing welcome with a demand that immigrants adapt to German ways. Under a "national integration plan" orchestrated by the grand coalition, language training for immigrants and their children is being expanded and businesses have promised to create extra training places for migrants. The coalition set up a standing "Islam Conference" to negotiate relations between the religion and the state. Its main successes, according to Mr Bade, were to establish that Muslims see no contradiction between their faith and Germany's constitution, and to agree in principle to teach Islam in state schools, as Judaism and Christianity already are.

In 2008 Cem Özdemir, a Swabian of Turkish origin, became co-chairman of the



Give them a job

Greens, the first hyphenated German to lead a big party. The first Turkish-origin police inspector debuted on "Tatort" (crime scene), a popular television series, in the same year. When Mrs Merkel named Philipp Rösler, who was born in Vietnam, as health minister in her new government, there was little comment. Second-generation immigrants fare better than their parents. Ethnic Turks born in Germany are twice as likely to pass the Abitur as those born in Turkey itself, though still only half as likely as native Germans to do so. Those who manage to obtain professional qualifications generally prosper in their careers, but this progress is partially masked by new arrivals of unskilled immigrants, often for marriage.

Neither side is sure where all this is

leading. Germany lacks the republican assertiveness of France, which bars schoolgirls from wearing headscarves, and the populist self-confidence of Switzerland, which voted to ban minarets in a referendum last November. But that does not mean that it is more relaxed about migrants. In some ways it is less so. For example, citizens of non-EU countries cannot hold dual citizenship, which they are able to do in France and the Netherlands. When Thilo Sarrazin, a former Berlin finance minister, last year put forward the claim, which many saw as bordering on racist, that most of the city's Turks and Arabs were "neither willing to integrate nor capable of it", polls found that a majority of Germans agreed with him.

If integration means a willingness to embrace German identity, he is right. Only a third of Turks have given up their passports to become German citizens, and even the most successful among them have reservations. Ufuk Topkara, a young naturalised German perfectly at home with his Turkish-German identity, maintains that "the moment you speak German you are German," but explains that many of his Turkish friends disagree: "They go on about being Turks living in Germany." If on the other hand integration means speaking German, belonging to the middle class and obeying the law, then his friends are already there. The problem is that too many do not recover from a poor start in life. About half of young children in Neukölln need remedial German classes before they go to school. There is no sanction if their parents refuse to take them.

Now the government wants to make it easier for mothers to go back to work after childbirth. The grand coalition introduced "parents' pay", a benefit linked to the new parents' salaries that allows either of them to take up to 12 months off. This has started to make a difference to family life. The share of fathers taking paternity leave—normally for an extra two months—has jumped from 3.5% to more than 20%; the most dotting ones, surprisingly, are in conservative Bavaria, where more than a quarter of new fathers take the benefit.

By 2013 crèche places will be available for a third of children younger than three, and children over one will be entitled to a place if the parents want it. That may be difficult to achieve in practice. Local governments, which foot part of the bill for day care, are in dire financial straits. The expansion in most states remains "grossly underfunded", says Gisela Erler, owner of Familienservice, a company that operates ►

► crèches. She reckons it will take 20 years before the promised number of decent-quality places can be provided. But what has been put in motion, she notes, is nonetheless "a huge step".

No politician openly opposes that, but conservatives in Mrs Merkel's CDU have persuaded her also to accept a benefit called *Betreuungsgeld*, made to mothers who prefer to stay home with their children. For people like Mr Buschkowsky, this is a disastrous departure from the progres-

sive policy of encouraging women to work and young children to attend German-speaking pre-schools. The conservatives invoke freedom of choice. "People know what's best for them," says Stefan Mappus, the premier of Baden-Württemberg. "It's sad that when you want to strengthen the family people accuse you of defending an obsolete model."

In business, pragmatism reigns. BMW supports four kindergartens in Bavaria and is trying to make the work culture more

family-friendly. "The best worker isn't always the one who stays till 8pm," says Mr Krüger, the personnel chief. BMW now lets workers take sabbaticals and up to 20 days' extra holiday a year in return for lower pay. He wants to arrange things so that working part-time does not mean dropping out of professional life. But family friendliness alone will not shield BMW from the coming demographic storm. By 2016, says Mr Krüger, "we won't make it without engineers from other parts of the world." ■

## Getting closer

But eastern and western Germany may never quite meet

THE capitalist West had Kodak, Agfa and Fuji. East Germany snapped its photos on ORWO film, which had drawbacks. The images were easily smudged and the colours were weird. In Wolfen, where ORWO was manufactured, people said you could develop the film by dipping it in the river Mulde. Neighbouring Bitterfeld, a hub of the East German chemical industry, was known as the "dirtiest city in Europe".

Since German unification in 1990 the federal and state governments have spent €230m on detoxifying the area. ORWO no longer makes film. Bitterfeld still produces chemicals, but hundreds of well-groomed firms have replaced the cheerless *Kombinat* (industrial conglomerate), and the chemical park now looks out over a nature

reserve. Next to Wolfen is Solar Valley, a cluster of renewable-energy companies.

But Bitterfeld and Wolfen, now one town, have not yet recovered from the shock of unification, and may never do so. The super-efficient successors of the old socialist enterprises need far fewer people to work for them. The town has lost 44% of its population, says its mayor, Petra Wust. The young headed west to jobs and better pay. In the east the celebration of the 20th anniversary of unification next October 3rd will be tinged with melancholy.

For western Germany unification was a national triumph. It restored full sovereignty to the whole of Germany, both legally and psychologically. It removed the oddity of a separate East Germany, a thorn in the Federal Republic's flesh. But the cost was mind-boggling. In the past two decades about €1.6 trillion has flowed from west to east to pay for pensions and public-sector salaries, build roads, smarten up cities and encourage investment. Last year alone the net transfer was €80 billion, about 3% of German GDP.

Unification is no longer new and exciting, but it remains incomplete. Few doubt that it was inevitable, or question the basic political principles of the unified republic. In a recent poll by Forschungsgruppe Wahlen, a research outfit, 91% of east Germans ("Ossis") and 85% of west Germans ("Wessis") said unification was the right choice. Another survey, by Infratest dimap, found that 91% in the east support democracy as a form of government, though less than half are happy with the way it actually works. But Ossis and Wessis still have different perceptions of history and politics and of the way the burdens of unification were

apportioned. Easterners are acutely conscious of what the merger has done to them. For most westerners the consequences have been more remote, so they tend to underestimate them.

Unification was bound to be expensive because of the way it was done. Once the border was open, West Germany had to offer some semblance of its own prosperity to the east or face mass immigration. So it exchanged D-marks for Ostmarks at a rate that had no basis in economic reality. Pensions were brought close to western levels. Trade unions, fearful that eastern workers would swamp western factories, insisted on rapid wage increases in the eastern states. Even the electricity supply needed an immediate upgrade: east German pow- ►



The way things were in Bitterfeld



That's better, but where is the work?

er plants fell foul of EU rules and were switched off, so the region was wired into the western grid.

The west's nervous generosity sealed the fate of thousands of overmanned eastern firms making goods that had become unsellable in any part of the country. Between 1990 and 1992 they shed some 2.3m industrial jobs. Talent drained away. Since 1989 about 4.3m easterners have left the region, to be partially replaced by 2.7m westerners. All in all, eastern Germany lost a tenth of its population. Eastern Germany's unemployment rate is nearly double that of the west, though that is partly explained by a higher female participation rate.

#### Worth it, despite the pain

But these disruptions do not negate the huge gains in material and political well-being that unification brought about. The gap in living standards has shrunk: GDP per person in the east has risen from 40% of west German levels in 1991 to nearly 70% in 2008. Life expectancy is six years higher than before. Infrastructure—roads, telephone lines and so on—is so good that westerners are envious. Nor has it all been bought with western handouts. Manufacturing accounts for about a fifth of eastern GDP, not far off western levels, and unit-labour costs are lower. The recession hit the west's export-oriented industry harder than the east's.

In North Wolfen, a collection of prefabricated apartment buildings put up in the 1960s, the losses seem to outweigh the gains. Once coveted, the apartments are now being abandoned. Once in a while a building is demolished. In the old days Kita Buratino, the neighbourhood's kindergarten,

used to take care of nearly 200 children. Now there are 80.

The teachers there understand that communist East Germany was doomed. Rosemarie Krämer has not forgotten that the wait for a new car was 15 years and that to get your own apartment you first needed a husband. She realises the party was wrong to demand ideological compliance from kindergarten teachers. "We wanted a new system," says Mrs Krämer, "but what we have now is not what we wanted."

Most of the mothers, who under communism would have gone out to work as a matter of course, now spend their days in tiny apartments up several flights of stairs and collect Hartz IV. The children get little guidance at home and the teachers have to treat them with kid gloves at school, so they flounder. Kita Buratino's carers mourn the loss of subsidised bread, field trips to the Baltic and holidays to celebrate women and teachers. Solidarity among people is disappearing from the new east Germany, Mrs Krämer thinks: "It has become a society with sharp elbows."

The western eagle's embrace has left most Ossis feeling bruised. Nearly two-thirds think they are treated as second-class citizens and three-quarters feel disadvantaged compared with Westis. But resentment is not rejection. Large majorities of both groups see the peaceful revolution—an eastern achievement that led to unification—as a fortunate event and think it has been a success, according to a poll by the Konrad-Adenauer-Foundation, which is linked to the CDU.

Adenauer, the first post-war chancellor, thought that "east of the Elbe the Asian steppes begin." The steppes have now ad-

vanced to the Rhine. Unification led to an "economic cleansing" of the west, argues Ulrich Blum of the Institute for Economic Research in Halle. It was partly financed by a rise in social-security contributions, which made labour more expensive and indirectly led to the Agenda 2010 reforms. Post-communist labour practices in the east inspired greater western flexibility. And the east is already providing models for coping with demographic decline.

The move to more liberal shop-opening hours started in the eastern state of Saxony, in part because east German women spend more time at work. In 2007 three-quarters of them were in the workforce, against two-thirds in the west, and their pay was much closer to that of their male colleagues. They are happy to park children in crèches, which remain more plentiful than in the west. Eastern mothers work 12 hours a week longer than western ones. Although the overall birth rate in the east is low, highly educated women do not have fewer babies, as in the west. Eastern Germans see themselves as leading the way. "What's behind us faces west Germany now," says Wolfen's mayor, Mrs Wust.

Parity with western Germany is the wrong benchmark, argues Mr Blum. Eastern Germany may never overcome some of its disadvantages, such as its relative lack of big cities and the exodus of its elite. The biggest investors are firms from outside the region, so there are few highly paid jobs in company headquarters. Eastern companies innovate and export less. Even so, the forecasters say that within a decade or so eastern Germany as a whole should be as rich as the poorest western *Länder*. That will be unification of a sort. ■

## Steady as she goes

Angela Merkel and the art of the possible

IT IS hard to think of another big country where a recent election was such a non-event. Both America and Japan responded to the economic crisis by electing governments of a different colour, and Britain may do the same in a few months' time. In Germany, after a flaccid campaign last September, voters made a judicious adjustment. Angela Merkel was re-elected as chancellor but the grand coalition she had been heading did not survive. Her conservative union—the CDU plus its Bavarian

sibling, the Christian Social Union (CSU)—acquired a new coalition partner, the liberal Free Democratic Party.

The result was both an endorsement and a rebuke. Voters rewarded Mrs Merkel for her deft handling of the economic crisis. Polls show that Germans' trust in government rose during the crisis. Yet turnout in the election was a record low of 71%, and the two big parties that have dominated post-war politics were humiliated. The SPD's 23% of the vote was a disaster, and

the CDU and CSU's combined 34% was their worst result in 50 years. Only the strong showing of the FDP, which won a record 15% of the vote, spared Mrs Merkel from having to continue a grand coalition that her party did not want.

Guido Westerwelle, the FDP's leader and now Germany's foreign minister, proclaims that the election result will bring about a "spiritual-political transformation". His party is Germany's most forthright defender of free enterprise and a ▶▶



Merkel and Westerwelle give it a whirl

▶ smallish state. It returned to power after 11 years in opposition by promising to slash taxes and “make work pay again”. If Mr Westerwelle has his way, the new coalition will begin to move Germany out of the shadow of “father state”.

#### Keep it mellow

But such transformations are not Mrs Merkel's style. Her four-year partnership with the SPD, normally a political foe, was a soothing blend of measured progress and opportunistic retreats from Mr Schröder's reforms (which many Social Democrats had come to regret). She sat out factional fights, making the course she eventually chose look Solomonic. Her stewardship of the new alliance is likely to be similarly cautious. She operates best behind the scenes and above the fray.

Nor are the voters in the mood for adventure. The FDP's surprisingly strong showing during capitalism's worst post-war crisis does not look like a mandate for less state and more market. Its campaign emphasised tax cuts rather than a leaner state. In a poll conducted for the German Banking Federation, 61% of voters wanted more social protection and just 23% favoured more market. The political middle, which Mrs Merkel intends to colonise, wants a balance between social sensitivity and economic responsibility, says Klaus Peter Schöppner of TNS Emnid, a pollster. Mrs Merkel's mandate is to reassure.

Her style makes sense for many of Germany's problems. It worked in the crisis, to which she reacted pragmatically and flexibly. It seems right for issues that require the patient pursuit of long-term solutions, such as education and the integration of ethnic minorities. But some of the hard choices now facing Germany may need a different approach.

The new government has had a mud-

dled start. The coalition agreement is specific mainly about two issues, taxes and education, notes Andreas Pinkwart, an FDP leader and vice-premier of North Rhine-Westphalia, Germany's most populous state. There is to be extra money for education and research, €24 billion of annual tax relief and a simpler income-tax system. This will have to be reconciled with a recent amendment to the constitution obliging the federal government to get close to eliminating its structural deficit by 2016, and the *Länder* to do so by 2020. As the anchor of Europe's currency, the euro, Germany has an interim target of bringing its budget deficit below 3% of GDP by 2013. That is “an absolute must for Germany to be credible in the European context”, says Axel Weber, president of the Bundesbank, the central bank. This year and next the deficit is likely to exceed 5% of GDP. In appointing Wolfgang Schäuble, a tough-minded elder statesman of the CDU, as finance minister, Mrs Merkel signalled that she has every intention of meeting the deficit targets.

The government has not yet explained how it hopes to reconcile these goals. Deep spending cuts would fit with Mr Westerwelle's ideas for a transformation. But the liberals have not made a consistent case for shrinking a state that is not particularly big by OECD standards (see chart 7, next page), so attention has focused on the demand for tax cuts which, faced with record deficits, even most FDP voters now reject.

So far Mrs Merkel has contained the clashes. She managed to keep down a rebellion by state premiers from her own party against the coalition's first big initiative, an €8.5 billion package of tax cuts called the “growth acceleration law”. The next round is likely to spark further insurrection. The coalition's approval rating has sagged, along with support for the FDP.

Mrs Merkel's strategy will become clear only after North Rhine-Westphalia's own election in May, which will decide the survival of the state's CDU-FDP coalition as well as the federal government's majority in the Bundesrat, the upper house of the legislature.

The more important battleground is the modernisation of Bismarck's welfare state, which pays for pension, health and other benefits by taxing employment. According to one calculation, the unfunded future cost of these programmes pushes up public debt from 65% of GDP in 2007 to an implicit 250% of GDP. While investing more in the young, Germany must brace itself for ageing.

Some progress has been made on pensions. The grand coalition decided to raise the pension age, gradually, by two years to 67. But it also rolled back reform, for example by issuing a pre-election pledge that pensions would never drop even if wages did. “The next generation will pay dearly,” says Friedrich Breyer of the University of Konstanz. Partly because of the reforms so far, says Hans Fehr of the University of Würzburg, by 2030 pensioners “will experience a dramatic drop in income”. That argues for a further shift from state to private financing. The Bundesbank calculates that to keep pension contributions at their current rate of 20% of wages, the pension age will have to rise to 69 by 2060.

#### Doctor, doctor

Reform of health care may be the government's most ambitious undertaking. Germany is already the fourth-biggest spender on health after America, France and Switzerland. It does not have America's uninsured millions but suffers from un-German inefficiency. Germans are Europe's most dedicated patients, visiting their doctors an average of 18 times a year. Dr Rösler, the FDP health minister, wants to decouple health and employment costs and encourage patients to economise. His main idea is to convert part of workers' contributions into a fixed monthly payment that would act as a sort of insurance premium. More efficient insurers could charge lower fees. To lighten the burden for low earners, Dr Rösler would subsidise them through the tax system.

Hartz IV, though only five years old, is also ripe for reform. Some 5m people considered capable of working collect the welfare benefit but only 1.4m are actually employed. Activating the economically inert group would pay multiple dividends: it would spur growth, channel immigrants ▶



► into the labour market and, some economists believe, give a fillip to the underdeveloped service sector, easing Germany's dependence on exports. Currently people with low-paid jobs can keep part of the benefit, which ought to encourage work, but the settings are skewed. Once income exceeds €300 a month, benefits quickly tail off, in effect imposing a tax rate of 80%.

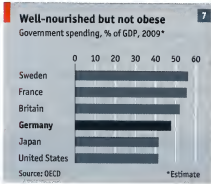
All of this is highly contentious. Unions howled at the increase in the retirement age to 67. Dr Rösler's idea of a flat fee for rich and poor alike is vociferously opposed by the CDU, and the subsidy plan fits ill with the FDP's enthusiasm for tax cuts. The constitutional court recently told the government to rip up its formula for setting Hartz IV benefits and start anew. Most reforms imply a shift in responsibility from state to citizen. With more than 40% of German voters receiving a state transfer of some kind (including pensions), politicians tread carefully.

Mrs Merkel wants to introduce reforms, but whether and when she does so will depend on her keen sense of what is politically possible. The calculation will not be simple. Germans have a low tolerance for measures that widen inequality. The Agenda 2010 reforms tested that tolerance, alienating the SPD's core supporters and fuelling the rise of the ex-communist Left Party. More than two-thirds of Germans disapprove of earlier reforms to pensions and health care, according to a 2007 poll by the University of Stuttgart. Even the FDP now takes pains to show a social conscience, which is one reason why during

the election campaign it said so little about slimming down the state.

Yet as pensioners tug one way, upwardly mobile young voters pull another. They "don't want to be spoon-fed" by the state, says Peer Steinbrück, who was finance minister in the grand-coalition government. Mr Westerwelle recently tapped into popular resentment against Hartz IV beneficiaries by complaining that in Germany "there seem to be only people who get tax money but no one who earns it." Heinz Bude of the Hamburg Institute for Social Research detects a middle-class disenchantment with welfare, akin to America's before Ronald Reagan.

The North Rhine-Westphalia election will not settle the matter, but it will give Mrs Merkel's government its first firm indication of whether it is on the right track. Jürgen Rüttgers, the state's CDU premier (and the party's most vocal defender of "social" policies), is likely to be re-elected.



But his coalition with the FDP could lose its majority, which could force the CDU to form either a grand coalition with the SPD or a partnership with the Greens. That would be a rebuff to Mrs Merkel's government and perhaps a fatal blow to Mr Westerwelle's transformation agenda.

### Colour combinations

But Mrs Merkel might sense an opportunity. The CDU and the Greens already govern jointly in two small states, in Hamburg by themselves and in Saarland as part of a "Jamaica coalition" (named for the colours of the country's flag) that includes the FDP. Such exotic alliances are bound to become more common. The rise of the Left Party makes it more difficult for traditional coalitions such as CDU-FDP to build majorities in the Bundestag. A CDU alliance with the Greens in North Rhine-Westphalia could pave the way for something similar at federal level after the 2013 election.

The CDU's origins are in the Catholic Centre Party of pre-war Germany, the Greens' in the protest movements of the 1960s. But the CDU has embraced environmentalism, and today's Greens are mostly prosperous burghers with a liberal bent. Entrepreneurs in Baden-Württemberg, another candidate for such a coalition, vote CDU but their wives are often Green, says Winfried Kretschmann, the party's parliamentary leader in the state. Such a partnership would be harder to forge at federal level, but Mrs Merkel might like to have a go. Whatever the colour of the coalition, she intends to head it. ■

## A muted normality

United Germany is becoming more comfortable in its skin

“GERMANY is plagued by a severe economic malaise and by uncertainty about its place in the world,” wrote *The Economist* in a special report in 2002. A lot has changed in eight years. These days Germany lectures other countries on economic management and sends troops to Afghanistan. It may still not be a “normal” country. But now that the Federal Republic is a matronly 60 and unification is approaching a post-adolescent 20, the likely shape of normality is becoming clearer.

Germany has become more at ease with itself. That became obvious during the football World Cup held in Germany in

2006, when its black, red and gold flag fluttered above cars and balconies as though patriotism had never gone out of fashion. Atonement for Germany's awful past is woven into the constitution and still shapes foreign and domestic policies; it is one reason why Germany is Israel's best friend in Europe. But now it is invoked less often as an excuse to avoid doing something that would otherwise make sense. The economic crisis, ironically, has been a psychological boost; to Germans, the social-market economy looks more like a solution than a cause.

This portends a Germany that can be

both more assertive and more useful to its allies. Its armed forces get involved in conflicts in the Balkans, the Middle East, Africa and Afghanistan, to which Germany is the third-largest contributor of troops. In January, under pressure from America, it agreed to raise the maximum number of soldiers it could send to Afghanistan from 4,500 to 5,350 and to double its aid for civilian reconstruction.

Germany now defends its national interests more frankly, especially in Europe. Helmut Kohl, the chancellor who guided Germany to unification, was responsible for the last great act of self-denial, the sur- ►►



render of the D-mark. The tone changed with his successor, Gerhard Schröder, who made it clear that Germany would not reach for its cheque book every time the European Union put out its hand. He also signed a deal to build a gas pipeline from Russia that bypasses Poland and the Baltic states (and now works for the consortium that is constructing it), suggesting that a more self-confident Germany would also be a more selfish one.

This marks a generational change. Responsibility is passing from the '68ers, moral prosecutors of the crimes committed by their parents, to the youth of 1989, notes Joschka Fischer, whose progress from radical street fighter to foreign minister sums up the arc of his generation. The next one has less need of the EU to keep it on the straight and narrow, or of NATO to protect it from attack. Last summer Germany's constitutional court ruled that the EU lacked the democratic legitimacy to push European integration further.

Yet the '89ers face new anxieties that keep them hanging on to the old structures. Germans were the biggest beneficiaries of the post-war bargain under which Europe outsourced its security to America and used the money it saved to build the welfare state, notes Jan Techau of the NATO Defence College in Rome. But Europe is no longer the front line and America's focus is shifting to the Pacific. Europeans fret that China and America will make global decisions over their heads.

The answer to that is for the Europeans to speak with a more coherent voice and to strengthen their partnership with the Americans. Terrorism, climate change and the rise of China are probably best faced by investing more in the main alliances, not less. But the alliances themselves are under strain from a variety of causes. It falls to Germany to help.

Angela Merkel, a more self-effacing character than Mr Schröder, has sent mixed signals. She was instrumental in securing the passage of the Lisbon treaty, which strengthens the EU's role in justice, migration and foreign policy. Yet when it came to picking the first holders of the top jobs created by the treaty—the president of the European Council, which represents heads of government, and the high representative for foreign affairs—she joined her fellow leaders in choosing figures too puny to compete with them. In European emergencies Mrs Merkel has been watchful of German treasure and national prerogatives. Like her predecessor, she wants a permanent seat for Germany on the UN Security



Better one than two

ity Council. Germany is coming to resemble France in balancing European cohesion with the pursuit of national status, says Gunther Hellmann of Johann Wolfgang Goethe University in Frankfurt.

#### Once burned, always shy

Yet unlike the victors of the second world war it remains, in the words of Constanze Stelzenmüller of the German Marshall Fund, a "self-shackled republic". Germany's NATO partners see it as passive, reactive and foot-dragging. Post-war pacifism remains vigorous. Germans respect their armed forces but a 2007 survey by the Bundeswehr found that only 42% of the population were proud of their achievements, compared with 87% of Americans. Most want Germany to pull out of Afghanistan as soon as possible.

What is striking, however, is how little

the Germans protest. Even though they disapprove of the Afghanistan operation, 60% accept that such missions are unavoidable, according to Allensbach, a polling organisation. Germany's most popular politician is Karl-Theodor zu Guttenberg, the aristocratic defence minister. Similarly, the EU inspires little enthusiasm, but few people doubt that Germany's destiny lies within it. National pride is partly linked to a sense of international duty.

Germany's friends no longer worry much that pride will ever become hubris again. A federal state with a declining population embedded in democratic alliances is unlikely to be a threat. But they do fear that its sense of duty will flag. As Germany comes of age, it seems unsure whether to assume more responsibilities or merely more prerogatives. Its allies are depending on Germany to become wiser with age. ■

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France's regional elections

## The strange unpopularity of Nicolas Sarkozy

PARIS

The ruling party of Nicolas Sarkozy is bracing itself for a bad result in France's regional elections

THIS ought to be a buoyant time for Nicolas Sarkozy. France's economy is holding up better than its neighbours': GDP rose by 0.6% in the fourth quarter of 2009 over the previous quarter, whereas it was flat in Germany. No big French bank has had to be rescued, nor has there been a wave of mortgage repossessions. The top 40 quoted companies have just reported combined profits of €47 billion (\$64 billion) for 2009. The French president has a big parliamentary majority and faces no credible opposition leader. He even has a popular prime minister, François Fillon.

Yet Mr Sarkozy faces an imminent political humiliation, as disillusioned voters snub him in regional elections. The two-round poll, being held on March 14th and 21st, will elect governments in France's 22 mainland regions (plus four overseas). All the opinion polls agree that the results will be terrible for Mr Sarkozy's ruling UMP party. As it is, the party runs only Alsace and Corsica. With turnout likely to be low, and uncertainty over the vote for the far-right National Front, there could still be a surprise. But even the UMP has resigned itself to at best one region gained—and, at worst, Corsica and even Alsace lost.

In part this is just mid-term blues. At the previous regional poll in 2004, when Jacques Chirac was president, the Socialists also swept the board. Regional elections offer a chance to register a protest

vote or an abstention, since for most voters the stakes are low. Despite winning more autonomy, French regions, which run services like transport, schools and museums, do not have the powers of German states. Their combined budget of some €28 billion in 2009 is little over a third of the combined budget of France's departments—the level of government below regions.

Few voters feel attached to their regions, which were created only in 1986; fewer still know who runs them. Just 29% of respondents could name their regional president, according to LH2, a polling group. The best-known, identified by 85%, was Ségolène Royal, the defeated Socialist ex-priminister candidate who is president of Poitou-Charentes. François Bonneau, president of Centre, was correctly named by a paltry 7% of his own electorate.

Another factor is the strange disconnect between the Socialist Party at local level, where it is credible, and on the national stage, where it is not. Martine Aubry, the party's boss, has criss-crossed France on the campaign trail, but it is local candidates who seem to count more. In Languedoc-Roussillon, Georges Frêche, the incumbent president, looks like being re-elected, despite being kicked out of the party for an anti-Semitic slur. On this basis the regional elections may have little bearing on the prospects for the 2012 presidential election.

Why are the French so fed up and so

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ready to protest at the ballot box? One reason is that it is little comfort, in the midst of an economic slump, to be told that life is even harder next door. The French may have been spared the worst of the speculative bubble, but they have been badly battered by unemployment, the economy's longstanding weak spot. The jobless rate is now above 10%, its highest for over ten years, compared with 7.5% in Germany and 8% in Britain. Unemployment among men under 26 is as high as 25%. Night after night, French television news seems to announce yet more job losses and factory closures. Last year, protesting workers went in for "boss-napping" in protest. The cumulative effect is to spread fearfulness.

Mindful of this, Mr Sarkozy has tried to apply his interventionist, action-man approach to industry. In a speech after visiting a helicopter factory near Marseille earlier this month, he announced that the state would keep a closer watch on the strategy of any company in which it had a stake. He also repeated that he "would not accept" such firms making cars outside France that are intended for the French market. He has summoned bosses to the Elysée, squeezing out concessions just in time for the evening news. When Total recently said that it would close an oil refinery employing 370 workers in Dunkirk, its boss, Christophe de Margerie, had to fly back from New York to meet the president. Total then promised not to make any compulsory redundancies and to keep another five refineries open for the next five years.

The trouble is that, as time passes, all such efforts seem palliative at best. Mr Sarkozy has pledged to keep factories open before, only for them to close once the tv cameras move on. When it comes to jobs and industry, the French seem to doubt his ability to keep his promises. This is upset- ▶▶

## Italy's regional elections

## Berlusconi's burlesque

ROME

A farcical failure to register candidates in time

THE elections on March 28th and 29th in 13 of Italy's 20 regions were meant to seal Silvio Berlusconi's resurgence after a run of scandals over his private life. Eleven regions are held by the centre-left opposition. The prime minister, coasting on a wave of sympathy after an attack by a mentally unstable man in December, had hoped his People of Freedom (PdL) movement might oust up to five centrist and left-wing governors. But its campaign is in chaos—and the government's ratings are plunging.

To think that it all started with a bread roll. That is what Alfredo Milioni, a former bus-driver charged with registering the PdL's candidates in Lazio (which includes Rome), first said had lured him from the queue at the electoral office on February 27th. He later offered two other explanations for missing the deadline. Party leaders claimed he had fallen into a trap set by the opposition. But nobody disputes that he returned after the deadline had expired. Electoral officials duly refused to accept the PdL's slate. That, and two failed court appeals, has left the ruling party out of the race in Lazio, one of five potential swing regions. This was almost excluded in Lombardy too, this time because some of its signatures seemed dubious.

What do you do if you are in a fix, having failed to abide by the rules? In the case of Silvio Berlusconi, you alter the rules. On March 5th his cabinet approved a decree to allow the candidates to run after all. President Giorgio Napolitano signed it into law, prompting one opposi-

tion leader, Antonio Di Pietro, to call for his impeachment. The decree transformed a farce into yet another example of Mr Berlusconi's contempt for the rule of law, of a piece with a new draft law to allow ministers to delay criminal trials against them.

Yet the cabinet's decree has united his often fractious opponents and so far failed to achieve its objective. On March 8th yet another court ruled against the PdL, saying that a government ordinance could not change regional law. Moreover, said the judges, PdL representatives were required to have been at the electoral office when the deadline expired, and there was no proof they were.

The ruling added to a growing impression of incompetence among PdL officials. Umberto Bossi, the Northern League leader, has called them "amateurs out of their depth". This is damaging to Mr Berlusconi because he has sold himself as leader of a team that gets results. His government was already losing ground in the polls after a scandal over public-works contracts. On March 7th *Corriere della Sera* newspaper put the government's approval rating at just 39%, down from over 50% in December. Another survey in *Panorama*, a magazine, suggested that the centre-left would hold on to all but one region.

Mr Berlusconi's response was characteristic. On March 9th he abruptly turned victim, blaming his woes on opposition conspirators and left-wing judges, and announcing "a big, national demonstration to defend our right to vote."

Which Mr Sarkozy has vowed to pursue after the regional elections. He wants to raise the retirement age from 60, which is well below Germany's level. Yet this is likely to trigger fierce resistance on the streets, with protesters no doubt emboldened by the government's poor regional results.

Maybe Mr Sarkozy will have to turn, for once, to his prime minister. The man whom Élysée staff used to nickname "Mr Nobody" has a higher popularity rating than the president, and a glowing press. One recent news magazine even splashed "President Fillon" on its cover. Mr Sarkozy has already suggested that there will be no ministerial reshuffle, however bad the regional results are. So Mr Fillon may be his best weapon for taking on tough reform. If he fails, Mr Sarkozy could at least copy Mr Chirac's old tactic of blaming his prime minister—and then sacking him. ■



## The Cyprus talks

## A fillip for Talat?

ATHENS

An international court ruling injects new life into fast-fading peace talks

ON ANY small Mediterranean island, property is jealously protected. Orange and olive groves can be as valued as posh villas and sea views. Nowhere more than in Cyprus, split into Greek- and Turkish-Cypriot zones ever since Turkish troops invaded in 1974 after a coup aimed at Enosis, or unification with Greece.

For Greek-Cypriots who lost homes and businesses in the north, a settlement on property is key to reunifying the island. "Who gets their home back, who gets another property in exchange, who gets compensation: this is what really matters," says a seasoned observer of the Cyprus talks. In 18 months of UN-sponsored negotiations, Demetris Christofias and Mehmet Ali Talat, respectively the Greek- and Turkish-Cypriot leaders, have broadly agreed over how a bizonal, bicomunal Cyprus should be governed. But they have avoided discussing in any detail the thorniest issues, including property.

This could change after a decision by the European Court of Human Rights in Strasbourg which, optimistic observers hope, may speed up the peace process. Instead of taking their cases straight to Strasbourg, Greek-Cypriots must now apply first to an "immovable property commission" in north Cyprus, established by Turkey, that has powers to restore property or award compensation. The alternative, says Achilles Demetriades, a Greek-Cypriot lawyer, "is to wait for a political solution"—perhaps indefinitely.

The ECJ decision is a timely boost for the pro-settlement Mr Talat, who faces a tough contest to win next month's presidential election in the north. His hardline ▶

ting voters who elected Mr Sarkozy precisely because of his energetic, can-do approach. Among his personal qualities, he is still considered "determined" by 76% and "authoritative" by 70% of respondents, says a survey by Ipsos, a pollster. Yet only 42% find him "efficient".

The underlying flaw in French industrial policy is not a lack of strategic oversight by the state, but the crushing weight of payroll charges for employees who are paid above the minimum wage. For employers, these add up to 45% of salary in France, against 13% in Britain. They deter firms from hiring or expanding. Mr Sarkozy knows this full well. He even mutters periodically about doing something to remedy it. Yet, in today's restless popular mood, he seems to calculate that he cannot push the trade unions too far.

The same may hold for pension reform,



nationalist opponent, Dervish Eroglu, has been far ahead in the polls because many Turkish-Cypriots are disillusioned with endless inconclusive peace talks. Mr Eroglu, who speaks little English, is seen as a reluctant negotiating partner for Mr Christofias. If the talks broke down, some diplomats say, the outcome might eventually be permanent partition.

But the idea that Greek-Cypriots will now have to work with a Turkish-Cypriot body may persuade Turkish-Cypriots that Mr Talat's engagement has more to offer than Mr Eroglu's hostility. And if Mr Christofias, an old communist, can keep his nationalist coalition partners at bay, there is enough time before the election for the two leaders to agree on an optimistic statement of progress that could further boost Mr Talat. After the *echr* ruling, Mr Talat has made up ground in the polls. He is just six points behind Mr Eroglu, down from 20 points a few months ago. His defeat no longer seems inevitable. If he is re-elected, the peace talks will gain fresh momentum.

It helps that Recep Tayyip Erdogan, the Turkish prime minister, is showing more interest in a Cyprus settlement. Earlier this month he took the unusual step of inviting a group of Greek-Cypriot journalists to Turkey. When asked about the withdrawal of the 35,000-odd Turkish troops in the north, Mr Erdogan made clear that, if a settlement were reached, they would leave.

The global recession has ended a boom in holiday-home construction on both sides of the UN buffer zone between the Greek- and Turkish-Cypriots. But the disappearance of foreign buyers has not yet brought a collapse in prices. And a peace deal would send property prices soaring. "We'd be able to attract top-tier American and Asian investors to Cyprus. We could even become the Bermuda of the Mediterranean," says a Nicosia accountant whose parents once owned an orange grove. ■

the 1970s at a school near Mainz. At an elite Benedictine school in Ettal, in Bavaria, in the 1960s "absolute terror reigned", says one victim. At a children's home in Berlin, the perpetrator was a nun, claims a 60-year-old woman. Other scandals have surfaced in Austria and the Netherlands.

The Regensburg allegations come near Pope Benedict XVI. His brother, Georg Ratzinger, led the "cathedral sparrows" for 30 years from 1964. He has confessed to slapping children but said he knew nothing of sexual abuse. Mr Wittenbrink finds this claim "inexplicable".

Death and defection are slowly eroding the membership of both main churches. The drop in revenue is happening more speedily because those who leave tend to have relatively high incomes. Within 20 years the income of the Protestant church may shrink to two-thirds of its present level, says Mr Pollack. Blows to the churches' moral authority will hasten the process.

Germany's Catholic church is striving to avoid the secrecy and complacency that shaped the response to similar horrors in Ireland and America. It has appointed a representative for sexual abuse, Stephan Ackermann. He promises "no minimisation or cover-up". The director of the Ettal school and the abbot of the monastery that runs it have been pushed out. There is talk of strengthening the church's 2002 guidelines for dealing with sexual abuse.

The law provides no clear remedy, since the statute of limitations bars prosecution for abuses that occurred decades ago. In the vacuum a debate has flared about whether the church is doing enough, which has split the government. The justice minister, Sabine Leutheusser-Schnarrenberger, who comes from the Free Democratic Party (FDP), a partner in Mrs Merkel's coalition, accuses the Catholic church of erecting a "wall of silence". Church policy, she claims, is to investigate abuse allegations internally. She wants the church to compensate victims and participate in a "round table" with their representatives. In the stridency of her demands, Catholics smell a whiff of anti-clericalism.

The church refuses to be singled out. Its misdeeds, it says, have nothing to do with religion or celibacy; in a permissive society, secular educators also commit them. The latest target of abuse allegations is a non-religious boarding school in Hesse. The church will join a round table, but not as the only guilty party. In this, it has allies. Mrs Leutheusser-Schnarrenberger's partners think she took her criticisms too far. "For her it's about attacking the Catholic church," complained Norbert Geis of the Christian Social Union, the CDU's Bavarian sibling. Mrs Merkel, though suspected by some of being out of sympathy with Catholicism, is unlikely to crusade against the church. Even weakened, it is a political force to be reckoned with. ■

## German church scandals

# Abuse and counterabuse

BERLIN

Child-abuse scandals in the Catholic church come a bit nearer the Pope

THE Domschatzen in Regensburg, Bavaria, for a thousand years. But in the 1960s some choirboys there were victims of a "refined system of sadistic punishments connected with sexual lust", according to Franz Wittenbrink, a composer who attended the choir's boarding school until 1967. Their traumas are among scores of cases coming to light at Catholic institutions across Germany and elsewhere in Europe, mostly decades after the crimes were committed. The church is struggling to dispel the impression that it is the most flagrant abuser of its own principles. And Germany's political leaders seem torn between their concern for children's welfare and their ties to the church.

Christianity matters in Germany. Around two-thirds of west Germans identify themselves as Catholics or Protestants. Christians who pay income tax hand over an extra "church tax" that accounts for two-thirds of church revenue. Germans are not devout: 4% of Protestants and 14% of Catholics in the west are weekly churchgoers. But, says Detlef Pollack of the Wilhelms University in Münster, many count on the church to succour the sick, to offer counsel in times of need or to educate their children. The Christian Democratic Union (CDU) of Chancellor Angela Merkel, daughter of a Protestant pastor, has its roots in the pre-war Centre Party, which was closely linked to the Catholic church.

Protestant prestige was briefly dented in February when the church's leader, Margot Käßmann, was caught drunk-driving (she promptly resigned). The Catholic church may have to serve a harder penance. Since January more than 150 people have come forward with various tales of abuse. The latest allegation is of abuse in



Joseph and Georg, bother in Christ





Slovakia's disturbing patriotism

## Culture creep

BRATISLAVA

The Slovak leader deploys national culture as a political weapon

IN THE run-up to Slovakia's parliamentary election in June, Robert Fico, prime minister and leader of the centre-left Smer party (pictured above), is busy bolstering his national credentials. His supporters say that ordering schoolchildren to sing the national anthem is just an example of a legitimate effort by a newish country to strengthen its sense of self (Slovakia became fully independent only in 1993, after the break-up of Czechoslovakia). Critics find Mr Fico's cocktail of history and culture stodgy or downright creepy.

The focus of protests is a new "patriotic act" just passed by parliament that awaits presidential approval. It mandates weekly anthem-playing in all state educational establishments. School officials who disobey risk being sacked. Its champion is Jan Slota, the bombastic leader of a nationalist party that is part of Mr Fico's coalition. Mr Fico himself takes a softer line, defending only what he calls "reasonable historicism". But even this is sparking angry squabbles over Slovakia's past.

Some disputes will seem trivial to outsiders. For example, can today's Slovaks trace their roots to Great Moravia in the 9th century? Yes, says Mr Fico, who urges officials to call its people the "Old Slovaks". No, say his opponents (and most historians), who see this as a ludicrous attempt to link modern-day Slovakia to an ethnically pure superpower in the dim and distant past. Myth-making is common in many countries. But Mr Fico's critics fret that behind his approach lies an attempt to rehabilitate the Nazi-backed Slovak puppet state of 1939-45. Some now regard this as an

Home births in Hungary

## Difficult delivery

BUDAPEST

The pioneer of home births in Hungary faces jail

IF HISTORY were a guide, obstetrics in Hungary should be wonderful. In 1847 Ignac Semmelweis pioneered mother-friendly childbirth, insisting that doctors should wash their hands between autopsy and delivery rooms (they objected to this slur on gentlemanly cleanliness).

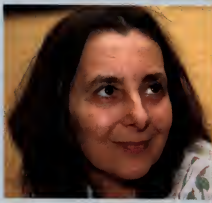
Obstetric care in Hungary is indeed excellent today. It is tightly run by skilled doctors, with low mortality rates. But those who challenge the medical profession still face problems. Agnes Gereb, a pioneer of home births, is facing up to eight years in jail. Prosecutors are going after her over one fatality in childbirth, one case in which a baby died some months after birth and two births that ended up as emergency hospital admissions. In the eyes of many Hungarians, such incidents show that home births are insanely risky and that those who promote them are little more than irresponsible cranks.

That view may seem outdated in the West, but not in the ex-communist East, where birth is a medical problem not a natural process, and where abortion has long been commonplace. Such procedures as episiotomy (cutting the vulva) are standard, whereas Ms Gereb says she has performed it in just ten out of 3,000 home births. She criticises hospitals for their frequent use of drugs to induce labour, which suits doctors' timetables rather than nature's. Women in Hungary also expect to pay, formally or informally, to be looked after in hospital, and especially for pain relief.

Outsiders who unsettle the obstetric cartel meet clannish (and even self-interested) opposition. Ms Gereb's supporters are inviting international experts

to testify that home births can be quite safe and that her record is commendable. But the court may choose to take expert opinion only from the obstetricians' trade body, which dislikes home births—and also Ms Gereb. An obstetrician herself, she has often clashed with her colleagues. In 1997 she was suspended for the outrageous act of allowing a father into the birthing room. Things have changed, but in Hungary only one birth in a hundred happens without some form of medical intervention. Ms Gereb thinks that many more could be natural, given a bigger role for midwives and a smaller one for bossy doctors.

Semmelweis went mad and died (of an infection) after being beaten up by wardens in an asylum. Ms Gereb does not face that fate—and she flinches modestly at any comparison to the great man. But, she notes, he might have sympathised with her over one big problem: the surprising difficulty of changing medical routine.



Agnes Gereb, home-birth believer

admirable, if brief, interlude of statehood for the much put-upon Slovak nation. Others see it as a truly shameful episode of clerical fascism.

Mr Fico's government seems to incline to the first view. It has raised fourfold the subsidy to *Matica slovenska*, a nationalist cultural outfit that condemns the execution in 1947 of Father Jozef Tiso, the wartime puppet state's priest-president. Many Slovaks see him as a holy patriot. Others think his role in the deportation of more than 50,000 Jews to Nazi concentration camps damns him irrevocably.

The culture weapon is also being wielded at the education ministry, which is controlled by Mr Slota's party. It has sidelined a long-planned joint textbook with the for-

mer imperial power, Hungary, and is promoting instead a Slovak-centred view of the country's patchwork past. Emphasising ethnic Slovaks' virtues is unlikely to do much to lessen the alienation of Slovakia's national minorities, notably its 500,000 or so ethnic Hungarians.

Mr Fico's cocktail is especially potent because of the opposition's weakness. The leading centre-right party, the Christian Democrat *SĽK*, is in disarray after allegations of corruption connected with party financing. Its longtime leader, Mikulas Dzurinda, who was a reformist prime minister, has now pulled out of the election.

The wily Mr Fico is a lawyer, not a historian. But he seems to be trying to rewrite Slovakia's past as well as its future. ■

# Charlemagne | Juggling Europe's stars

The new president of the European Council will be worth watching



TO ENGLISH ears, the word "compromise" often has a shabby ring. When safety or quality are compromised, people get hurt. Yet in continental Europe, compromise is often a political ideal. Nowhere is this truer than in Belgium, a country whose Dutch- and French-speaking populations tolerate each other (just), thanks to endless fudges and deals lubricated with taxpayers' money. Belgium's six governments are all baggy coalitions that balance social-market capitalism with a free-spending public sector (one in three active adults works for the state).

A third of parliamentarians from Flanders would like Belgium to vanish, says one senior politician. Belgian governments fall often, yet the place trudges along because most leaders agree to disagree. One thing that unites them is faith in deeper European integration. Apart from those on the extreme right, most Belgian politicians would welcome European Union taxes, a European army and nation-states reduced to a vestigial role. It is not hard to see why: to Belgian leaders trapped in the national equivalent of a bad marriage, the EU's free love must look like bliss.

This is the world that shaped Herman Van Rompuy, the first permanent president of the European Council, where heads of government come together. This job (once coveted by Tony Blair) was created by the Lisbon treaty. It is held for a two-and-a-half year term, renewable once. It makes Mr Van Rompuy a full-time spokesman for the EU's 27 leaders, a chairman who sets the agenda for summits and is host when foreign dignitaries come calling. The post replaces a system in which national leaders chaired the European Council in rotation for six months at a time.

Mr Van Rompuy, a 62-year-old Flemish Christian Democrat, was picked in November 2009, at the same time as Catherine Ashton, a British Labour peer, who became the EU's foreign-policy chief. As onlookers rubbed their eyes and Googled this little-known pair, a simple gibe spread: EU leaders had chosen non-entities who could not overshadow them. A few months on, Lady Ashton remains a target of withering criticism, much of it unfair. In contrast Mr Van Rompuy's star has risen. Senior officials call him "very intelligent" and "a master tactician", notably at a summit on February 11th when he drafted a declaration of EU solidarity with Greece that bridged the differences between Germany's Angela Merkel and France's Nicolas Sarkozy.

In person, he has an air of authority more than power. With his soft, monotonous delivery, his fondness for grey ties, and wispy, professorial hair, he could be a university president. He is a devout Catholic with mild, donnish quirks. He writes haiku poems and reads Shakespeare for pleasure. Official lunch guests are greeted with sherry, which one does not often see nowadays. Mr Van Rompuy sips his sherry modestly and shuns wine at table (instead, his glass is discreetly filled with Stella Artois beer). He speaks French and German as well as Dutch: he is shy of using English in public although he is fluent in it, say aides.

He has his critics. Photographs of Mr Van Rompuy at the February 11th summit, flanked by the German and French leaders, reinforced the impression that he has "only two bosses, Merkel and Sarkozy", to quote one national ambassador to the EU. Supporters say these images were "unfortunate", and add that Mr Van Rompuy saved the summit by heading off a Franco-German announcement on Greece that did not even involve the European Council. But another ambassador says that east and central European leaders remain "furious" with Mr Van Rompuy, feeling that he ignores small countries.

He has raised some eyebrows with his eagerness to represent the EU at G20 meetings, alongside the European Commission president, José Manuel Barroso, and leaders of G20 members from Europe. Despite weekly breakfasts with Mr Barroso, a "blow-up" looms, it is widely predicted, as the two men tussle over who should speak for Europe in global discussions of economic governance or climate change.

Mr Van Rompuy's background has left its mark. As a former Belgian prime minister, he has big ambitions for the European Council, which became a formal EU institution for the first time under the Lisbon treaty. He has startled colleagues by suggesting that they gather once a month, and devote some meetings to single issues: energy security, foreign policy or a mandate for him to take to global gatherings, say. Many past European summits have been dull affairs, generating 40-page conclusions that the assembled leaders barely read, drafted for weeks by their underlings. Mr Van Rompuy wants "top-down" summits that issue crunchy conclusions, filled with concrete tasks, that leaders then take collective responsibility for fulfilling, says a senior official.

## Enter economic government

A priority is what Mr Van Rompuy calls "European economic government". This is a slippery term. Among French politicians, it can mean dirigisme, and putting growth ahead of budget deficits or inflation. In Germany, where it was until recently a taboo phrase, it means something like the harmonisation of rigour. Privately, Mr Van Rompuy's instincts may be more Germanic than French. He talks of macroeconomic co-ordination, to make sure that national policies do not clash with EU goals. But his private views are not important. He knows that national leaders disagree about a lot. But he likes to say that people do not have to agree on an end goal to work together. After all, in Belgium, everyone disagrees all the time: the art of compromise comes later, making sure that everyone leaves the room on the same line.

Is Mr Van Rompuy a man of ambition, keen to push national governments towards deeper EU integration? Or is he a pragmatist, wary of imposing ideas on elected national governments? Both: he is a man of compromise. He will be worth watching. ■



Interview with Nick Clegg

## Kingmaker in waiting?

The Liberal Democrats prepare for battle—in their own way

NICK CLEGG doesn't do "What if?" politics, he says. The leader of the Liberal Democrats is politely Delphic in the face of *The Economist's* inquiries, in an interview on March 9th, about his plans in the event of a hung parliament after the coming general election. A Labour or Conservative minority government is an option, but he will not rule out (or in) joining a coalition. This reticence is elementary politics: he knows any speculation would strike voters as "the height of arrogance" and hand his bigger rivals an electoral advantage.

It could also reflect an awareness that his vaunted role as kingmaker—ready to crown either Gordon Brown, the recently resurgent prime minister, or David Cameron, his Tory opposite number—may be exaggerated. If either of the two main parties is only a few seats short of an overall majority, they may be able to strike a deal with another, smaller party. If one has many more seats than the other, the Lib Dems would have no choice but to help the larger form a government or precipitate a second election. Only if both Labour and the Tories were well short of the required 326 seats for a majority, and had roughly the same number, would the Lib Dems, who now field 63 MPs, become crucial.

Mr Clegg's leadership, now in its third year, has been interesting for reasons of philosophy and policy—not just the casting vote he may soon enjoy. In recent decades, both main parties have migrated

from their ideological comfort zones to the centre-ground: first Labour under Tony Blair, then the Tories under Mr Cameron. More quietly, Mr Clegg has done something similar with the Lib Dems. "Between 1992 and 2007 the party was intellectually closer to Labour," says Julian Astle, a director of CentreForum, the Lib Dems' favourite think-tank. "That is not so clear now."

With his Treasury spokesman, Vince Cable, Mr Clegg nudged Lib Dem economic policy away from social democracy (one half of the party's family tree) and towards liberalism (the other). It is still redistributive, but with fewer big spending pledges and more emphasis on tax cuts than on benefits for low-earners. He also espoused market-based ideas in education, arousing "surprisingly" little annoyance among the party's base in the public-sector middle class. True, the Lib Dems are with Labour in opposing immediate spending cuts to ease the fiscal deficit. But they have gone further than even the Tories in stating the scale of the cuts eventually needed and what they might look like.

Mr Clegg denies that his leadership amounts to a move to the "right" (Lib Dems, with a touch of sophistry, argue that such labels are anachronistic). The left certainly approves of his civil libertarianism and his (now diluted) policy to abolish university-tuition fees. Though he has not called for an end to the war in Afghanistan, he has pleased the left by "rattling the

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case" over its conduct. Still, more than his recent predecessors, he is contemptuous of the idea that Liberalism and Labourism are natural partners whose separation in the early 20th century should now be reversed. "Liberalism is a really old British tradition and it has a completely different attitude towards the individual," he insists.

For some of Mr Clegg's critics, this is what has been wrong with his leadership from the outset. Faced with a crumbling Labour government and Mr Cameron's seduction of the swing vote, the Lib Dems should have sought to become the main party of the left once Sir Menzies Campbell relinquished the leadership in 2007. A replacement from the liberal wing of the party was always the wrong choice.

Others carp that Mr Clegg should have profited more from the anti-politics mood provoked by last year's parliamentary-expenses scandal. "I wish," he confesses, "more people knew that the only one of the three main parties where not a single MP flipped from one property to the next, and not a single MP avoided capital-gains tax, where every single London MP did not claim a penny of second-home allowance, ▶▶

### In the balance

Voting intention, poll of polls, %



Sources: BPIX; ComRes; ICM; Ipsos MORI; Populus; YouGov

► was the Liberal Democrats."

Still others worry that, whatever his own gifts, Mr Clegg is too similar to Mr Cameron in his youth, looks and gilded background to stand out. (He quibbles with the last of those, pointing to the many years he spent working in America, eastern Europe and Central Asia while Mr Cameron remained snuggled up in London's political and public-relations scene.)

Yet Mr Clegg approaches the election in decent shape. Defying expectations of a Tory squeeze, his party is at around 18% in the polls: "I have been privately told, 'Don't be disheartened if you're down to 11% by this stage.'" Opposition to the Iraq war helped the Lib Dems do well last time, in 2005. But they could add MPs; they have their eyes on many Labour seats in northern England (where they run some big city councils) and think they will lose fewer to the Tories in the south than once thought. Upcoming television debates will give Mr Clegg equal billing with Mr Brown and Mr Cameron, a rare treat—though he warns against expecting a "great eureka moment" from anyone. His campaign themes, which double up as "tests" for any party seeking his support in a hung parliament, are progressive tax reform, extra education spending for poor pupils, greenery and a more proportional voting system.

The Lib Dems' resilient appeal is based on a number of things. For a small party, they are talented. Mr Clegg and Mr Cable are not the only Lib Dems who, on their merits, would win a place in the cabinet or the Tory shadow team. David Laws, the schools spokesman, and Chris Huhne, who carries the home-affairs brief, would too. The party also benefits from the electorate's disdain for the government and scepticism towards the Conservatives.

But perhaps the Lib Dems' main asset is their policy on the issue likely to dominate the next parliament: the ruinous fiscal deficit. There is political as well as economic strategy behind their approach, which triangulates between cutting spending too early and cutting it too little. It is designed to soothe worries that only a strong single-party government could retrench fiscally.

"In whatever circumstances we find ourselves", says Mr Clegg, "we will be the guarantors of fiscal responsibility. That means that if you have [the Tories] trying to run things, we would be a guarantor that they would not do stupid things like trying to cut dramatically when the economy can't sustain it... If it is [Labour] trying to soldier along, we are a guarantor that they would take this seriously rather than trying to live in denial." It sounds suspiciously like "What if?" politics, but a kind that voters, not to mention the financial markets, may be happy to hear. ■

## Policing Northern Ireland

# The end of the beginning

By BELFAST

Justice and policing are now devolved. What difference will it make?

THE Northern Ireland peace process passed another milestone this week when the Belfast Assembly voted by a large majority to approve the transfer of policing and justice powers from London. It was a significant breakthrough, given that quite a few assembly members have themselves attracted the attention of the police in the not-so-distant past. Now even those once considered dangerous will have a say on how the remaining paramilitary rumps are dealt with.

But, as is so often the case in Belfast, the advance took place not amid harmony and good cheer but against a background of attention-seeking and discord, as a single party held out against all the others. The Ulster Unionist Party (UUP), once Northern Ireland's largest and today a shadow of its former self, insisted on voting against devolution of policing and justice powers. The measure passed nonetheless, by 88 votes to 17.

The party made clear that it was not against devolving the powers in principle, only against devolving them now. Among its objections—and perhaps the most important—was a sense that the party, once at the centre of the peace process, was being excluded from the corridors of power these days. "We're meeting a brick wall from the two larger parties," complained

the UUP's deputy leader, Danny Kennedy.

In the assembly those bigger parties, Peter Robinson's Democratic Unionists (DUP) and Sinn Féin, often disagree. But together they command a majority, and when the two are in agreement they tend to pay scant attention to the UUP and other smaller elements.

In November 2008 the UUP formed an electoral pact with Britain's Conservatives, which the two parties presented as a new dawn for Northern Ireland. The trouble for both of them was that, although policing devolution should have been one of the brightest rays of that new dawn, David Cameron was unable to persuade his UUP allies to vote for it.

He tried hard. So did both Hillary Clinton, America's secretary of state, and, surprisingly, George W. Bush, who stirred from his post-presidential obscurity to ring Mr Cameron and urge him to bring the UUP into line. A strong supporter of the peace process throughout, America has particularly emphasised the importance of new policing arrangements.

But Sir Reg Empey, the UUP's leader and a politician who is normally more sedate than rebellious, dug in his heels. Even an emotional appeal from Kate Carroll, the widow of a police officer murdered a year ago by republican dissidents, did not deflect him.

Does the divided vote matter, since the assembly overwhelmingly approved the devolution of policing powers anyway? Not much, although diehard unionists may be encouraged to dig in harder, and Mr Cameron cannot have been pleased. The next test of political resilience—there is always a next test—will come in the general election likely on May 6th, when parties that share power in Stormont will be battling each other for Westminster seats.

For all the political hoopla, devolved policing will not deliver an early victory over the dissidents who killed Stephen Carroll. But it is an important step along the long road towards the isolation of the remaining gunmen. Many of them are unreachable political primitives, intent on bringing down the peace process rather than joining it. Ireland's justice minister, Dermot Aherne, pointed out recently that, with 13 big incidents since September alone, the dissidents have a growing capacity for violence, calling them a major and growing threat. The security forces north of the border agree.

Yet although these small but lethal groups are proving hard to eradicate, and although the UUP momentarily lost the tune, the peace process's advocates are still mostly singing from the same hymn sheet. The impressive show of support for devolved policing encompassed London, Dublin and Washington as well as most of the political spectrum in Belfast. Now, let's see what Northern Ireland makes of it. ■



Not ready enough, Sir Reg



Bishops, gays and equality

## Lords a-leaping

Even for the lords spiritual, the times are changing

TO OUTSIDERS, one of the oddest features of Britain's semi-theocracy is that 26 Anglican bishops have the right to sit in the upper chamber of the legislature, even though their church can claim the active adherence of less than 5% of citizens. But the "lords spiritual" still have clout, especially when the established church acts as an advocate for religion in general. That became clear in February, when the government backed away from a confrontation over the question of whom churches should employ—and, in particular, over which posts can be barred to gays.

The government's hopes were fairly modest. It was not questioning the right of religious bodies to follow their own beliefs when hiring priests or imams; it merely wanted to clarify that, in recruiting for non-religious jobs (accountants, for example), churches must obey the law and refrain from discrimination against gays. But pursuing even this cautious aim was deemed unwise at a time when many religious leaders, including Pope Benedict, were opposed (and perhaps considering how their flock should be encouraged to vote).

Things are quite different when the lords spiritual have no clear line. On March 2nd the House of Lords voted by 95 to 21 for an amendment to a wide-ranging equality bill that would allow civil partnerships to be celebrated in religious venues with religious language. Such unions have been possible in Britain since 2005 but their character has hitherto been strictly secular.

On the face of it, the measure, introduced by Lord Alli, a peer of Muslim background who is gay, simply permits religious groups who so wish—until now just Quakers, Unitarians and Liberal Jews—to solemnise unions between partners of the same sex. Conservative prophets of doom saw a slippery slope that would ultimately oblige Anglicans, Catholics and others to consecrate same-sex unions on their premises. The measure could, they feared, deprive bishops of any legal means to discipline a rebel priest who carried out such ceremonies against church rules. Or it could open the way for same-sex couples to allege discrimination if they were turned away from one of England's ancient places of worship. Given that Catholic and Anglican priests act as registrars (in other words, the rite they perform has legal effects as well as spiritual ones), would-be partners in a same-sex union could claim they were just exercising their right to "ser-

The rise of the handyman

## Mr Fixit

Professional fathers are downing tools to play with their children

AS THE rich have got richer and those in work ever busier, people with children have discovered a new way of spending their money: on handymen to do the sorts of odd jobs fathers used to roll up their sleeves and take care of. Despite the recent recession, dads, it seems, would rather spend quality time with their offspring than put up shelves or fix dripping taps at the weekend. So their wives, themselves hard pressed, are hiring other men to change fuses and the like, thus making time to dine out, kick a football or visit museums *en famille*.

Domestic help has long been a mostly female preserve, involving nannies, cleaners and laundry maids. That is changing, according to a forthcoming study by Majella Kilkey of the University of Hull and Diane Perrons of the London School of Economics. The pair reckon that nowadays 39% of domestic helpers in Britain are men, up from 17% in the early 1990s; in London, many are also

migrants. Many households hiring handymen already employ a small army of nannies, cleaners and gardeners.

Geoff Willett, chief executive of Hire A Hubby, agrees that the market for handymen, as distinct from specialist plumbers, electricians, decorators and so forth, has grown. He bought his company from its Australian founders and launched it in Britain in October 2009. "Our guys are all reporting good business," he claims.

Miss Perrons says that rich folk find the services of handymen more affordable than they were. Top people's pay has risen significantly, and the influx of workers from eastern Europe, as well as the increased numbers of the home-grown unemployed, has expanded the supply of handymen, lowering wages. Though it is mostly mothers who contract and supervise the workers, for the most part fathers do—whatever the cynics suspect—spend the time thus liberated with their families, rather than in the office, at the gym or in the pub.

The trend also suggests a change in the way many professional men view themselves, the researchers reckon. Gone are the days when fathers spent their weekends promoting manliness by showing little Johnny how to hammer in nails. Now they derive their sense of identity from success at work and from fatherhood itself, rather than having to demonstrate their masculinity through a rugged grasp of power tools or an impressive collection of socket sets.

Which may be just as well. One colleague relates the ultimate metrosexual moment. "Just a minute", carolled his young child to a handyman who had arrived without a vital tool. "I'll run and get Mummy's drill for you."



vise delivery" by state functionaries on equal terms with everybody else, a matter on which the new law has much to say.

One Anglican bishop, Michael Scott-Joynt of Winchester, voiced his enormous regret over the vote—but the retired bishop of Oxford, Lord Richard Harries (a peer in his own right), said he backed the measure because it was a simple question of religious liberty. Sooner or later, he thinks, the established church will have to recognise new social realities, including the fact that thousands of same-sex couples are in lifelong relationships.

Realities are indeed changing, even in the most conservative corner of the United

Kingdom, Northern Ireland. In recent weeks, none of Ulster's regular prelates has drawn a fraction of the attention enjoyed by Pat Buckley, a Catholic cleric who styles himself a bishop even though the Vatican has defrocked him. In the mainly Protestant port of Larne, he cheerfully weds same-sex couples and divorcees.

He announced at the beginning of the year that he was about to marry his own partner, a Filipino chef. The turbulent priest refuses to leave the fine church house that he has occupied for years; and as it licks its wounds from sex-abuse revelations, Ireland's Catholic hierarchy will find it hard to discipline or evict him. ■



# Bagehot | No escape

An infamous murder returns to the national consciousness, with worrying implications



**M**OST eras have their symbolic murders: crimes that are not only terrible but seem also to reflect the nation's pathologies. Victorian London had Jack the Ripper; modern Britain has the death of James Bulger, a two-year-old who in 1993 was abducted from a Merseyside shopping centre, tortured and killed by Jon Venables and Robert Thompson, both aged just ten. Their trial inspired national fury, revived in 2001 when they were released under new names. Mr Venables has now been returned to custody for an unspecified breach of his licence. Unspecified by the government, that is; channelling the ire the crime still arouses, newspapers have gleefully relayed rumours of his offence.

It is not surprising that this incident retains its power to appal: the grainy CCTV image that captured the small boy being led away by a bigger one has become an icon of depravity. The trouble is, the case held up a mirror less to the real state of Britain than to its dark, psychic fears. The confusion of those things has led to mistaken conclusions being drawn from it. They may be again.

Parents naturally fear harm coming to their children. But the recent increase in that sentiment is odd, because the murder of children, always rare, has become more so. Murder by children—it was the age of Mr Venables and his accomplice that shocked most—is even rarer. And while the shock they caused was understandable, it was also irrational. Children are generally thought to be less capable of moral reasoning than adults; they are permitted to be ruder, noisier, even, in a limited way, more violent; they are seen as less responsible for their actions. Except, it turned out, when they kill: “unparalleled evil”, said the judge in 1993, echoing a view that the boys represented evil incarnate.

Thus the murder chimed with fears about children's safety, and at the same time violated a confused but cherished notion of infant innocence: a pyrotechnic combination. In truth it was too exceptional to be used in diagnoses of British society's ills. Nevertheless, it was, not least by Tony Blair, then the shadow home secretary, who called it a “hammer blow against the sleeping conscience of the nation”. Some criminologists and police officers partly trace the toughening of sentencing policy in the years since, especially for young offenders—and thus the huge rise in the prison population—to the outrage the crime provoked.

The immediate political row this week concerned how much

the government should say about Mr Venables's circumstances. Jack Straw, the justice secretary, claimed to be balancing the public's “right to know” with the risk of prejudicing future criminal proceedings. He was also, of course, juggling his official duties and his instincts as a politician. He wavered, but in the end sensibly opted to say very little. But Mr Venables has already been enlisted in a more important debate, about the rehabilitation of criminals: if it works and whether it is worth paying for.

## Hard cases, bad vibes

Sober reflection suggests that—living as he does under an assumed identity, with the fear of discovery as well, presumably, as crushing guilt—Mr Venables's situation, like his crime, is too freakishly unusual to help in reaching broader judgments. Yet some have seen him as proof that some young criminals are beyond rehabilitation; that they are over-indulged when in custody and released from it too soon. The tabloid throw-away-the-key cause has been boosted. Whatever the facts in the case of Mr Venables, that is worrying.

Rehabilitation may be only one function of imprisonment, but it is an important one, for society and the taxpayer as well as the recipient—and the evidence suggests there is too little of it rather than too much. For example, Britain locks up more children in secure detention than any other western European country (though the total has recently fallen a bit), in part, say some, because of the Bulger furor. Yet the resources devoted to them are much scantier than those offered in psychiatric hospitals.

Much the same applies to young adults. Sparing them the “corrosive atmosphere” of adult jail was one reason given for releasing Mr Venables and Mr Thompson in 2001. The atmosphere doesn't seem to have improved all that much since then. The last annual report from the chief inspector of prisons concluded that “the high rate of re-offending among young adult men is unlikely to reduce without significant changes in approach, funding and focus.” Ditto criminals who serve short-term sentences: “Only a small proportion of prison budgets is spent on activity intended to reduce reoffending” by such prisoners, said the National Audit Office this week, “despite the fact that 60%...are reconvicted within a year of release.”

And this costly imbalance—between the alacrity with which politicians imprison people, and the resources available to rehabilitate them—looks set to worsen. The Conservatives, still likely to form the next government, envisage an increase in the prison population under still-tougher sentencing rules; they hope the figures will later come down, though history suggests that it is unlikely. They also talk about a “rehabilitation revolution”. But whether they will find the money for that, while simultaneously building new prisons, already seems doubtful.

The timing doesn't help. Mr Blair's original response to the Bulger murder helped to establish his reputation; Mr Venables has returned into public consciousness just as New Labour seems set to lose office, an eerie bookend to its political supremacy. In some of this week's coverage, the life of this one individual has seemed to serve as a parable for the progress of the country over the last two decades, or the lack of it. The story has captured and conveyed a widespread sense that the things that were supposed to get better haven't, and perhaps, more damagingly, that they couldn't: that there is no escape from the past. ■



## People and history

## Burying myths, uncovering truth

BELFAST, MADRID AND NAIRÓBI

In the aftermath of fighting or repression, people are often told to forget things. But in free societies, selective memory cannot be imposed for ever

**T**HE 15 boxes of bones were wrapped in the red, yellow and purple flag of the Second Republic. Each held the remains of a man whose support for a brief political experiment in the 1930s had proved fatal. At a ceremony in Madrid on March 6th the bones were given to descendants: mostly middle-aged grandchildren, but sometimes already aged sons or daughters.

They wept for men they had mostly never known. The victims had died of hunger and disease in one of the makeshift prison camps set up by General Francisco Franco in the early days of his 36-year dictatorship, established after the republic's defeat in a bloody, three-year civil war.

It is only now, 34 years after Franco's own death brought a rapid transition to democracy, that the bodies have been exhumed from a piece of wasteland near Burgos. "It was very, very moving," said José María González, who led the group that campaigned to have the bodies dug up. "I recovered my grandfather's remains. It was something that, before he died, I had promised my own father I would do."

This story is just one of hundreds of tales of Francoist repression that have emerged as the result of a citizens' movement to disinter and identify victims. It started when a journalist, Emilio Silva,

penned an article about his grandfather's death at the hands of a Francoist death squad. He went to his grandfather's home region of El Bierzo, in north-western Spain, in 2000. People pointed him to the spot where the body was buried. Mr Silva dug up a mass grave containing not just his grandfather but a dozen other victims.

News of the exhumations spread and imitators appeared. Suddenly Spaniards found that thousands, or tens of thousands, of Francoist victims lay in unmarked graves scattered around the countryside. Years of official silence, in Franco's time, were followed by an unofficial pact of forgetting as Spain's young democracy agreed to look forward, not back. The grave-diggers broke the silence. Their effort to find the truth has snowballed; now Mr Silva heads a group called the Association for the Recovery of Historical Memory, with branches all over Spain. Some 5,000 sets of remains have been recovered so far from 170 grave sites. The association has a list of 12,000 families who are now searching for the remains of lost relatives.

In places across the world whose recent past has been scarred by repression, war or both, attempts have been made by the authorities (from governments to wardlords) to lay down rules about what must be re-

membered and what must be forgotten. Often, it seems too risky to give free rein to the investigation and commemoration of the past. But people's patience has limits; sooner or later ordinary citizens will challenge the prevailing wisdom and demand a fuller account. And unearthing the past often means literally that: digging graves and studying the evidence.

## The trouble with truth

In Northern Ireland more than a decade after the "Troubles" largely ended, peace activists say there are still huge obstacles to a search for the full facts. This may reflect the ambivalent nature of a "settlement", based on a blanket amnesty and with the territory's future wide-open. Given that hardliners have gained influence since the killing stopped, the constituency for real truth-telling (probing all dirty secrets) is weak. But Marie Breen-Smyth, co-founder of a truth recovery group called "Healing Through Remembering", says the wish for full disclosure is strong among many of those worst affected by war.

Nor does the overthrow of a tyrannical order instantly make it easy to examine the past. Sometimes elements of the old regime remain influential, and threaten to make a comeback. That was the case in Ar- ▶

## Also in this section

64 Turks and Armenians

gentina in the 1980s, recalls Mimi Doretto, a veteran of that country's human-rights movement, who pioneered the use of forensic science to reveal the fate of Argentina's 10,000 or more "disappeared". Only in recent times, a quarter-century after the junta's fall, have enough facts been gathered to enable hundreds of prosecutions. A similar pattern of gradual truth recovery has occurred in many Latin American countries that underwent tyranny.

In other cases the removal of one set of despots paves the way for another "received" truth which people question at their peril. In Rwanda the perpetrators of the 1994 genocide were replaced by the Rwandan Popular Front (RPF), whose own record is not spotless. But any Rwandan citizen who doubted the RPF's version of the genocide could face jail. Zimbabwe, Uganda and Ethiopia are other examples of African states where ex-rebels have imposed new versions of history. But Kenya stands out as a country where the grass-roots demand for truth-telling (for example after the bloodshed of 2008) is strong.

Sometimes quite a lot of time has to pass before real truth-telling starts. But even in the most entrenched of conflicts, the passage of years emboldens people to question official stories. Take Cyprus, an island whose de facto partition in 1974 enabled the Greek- and Turkish-Cypriot authorities to impose their respective versions of that year's fighting and previous rounds of mayhem. For at least two decades after 1974 a key role in the Greek-Cypriot story was played by the 1,639 people said to be missing after the Turkish invasion of July 1974. The Turkish-Cypriots countered that 809 of their people were missing, mainly after the bloodshed of the 1960s. Each side played down killings that occurred in its own ranks, and blamed the "enemy" for its lost sons and daughters.

Neither tale was wholly false. But a subtler truth began emerging around 1998, when two Greek-Cypriot women went to a cemetery with pickaxes and hacked away at the marble slabs where they said their husbands were buried. When police stopped them, they summoned cameras: they had exposed the fact that the government knew the locations of some of the "missing"; indeed, they were on Greek-controlled land, so perfectly accessible.

Investigative journalism by a Greek-Cypriot, Andreas Paraschos, and a Turkish-Cypriot, Sevgül Uludag, helped establish that the sites of many mass or individual graves were in fact known to the authorities. Mrs Uludag got death threats from within her community, and was once assaulted by hard-line Greek-Cypriots, as she helped expose how some of the killings had been by extremists acting against their own respective sides. Partly thanks to a change of line by Greek-Cypriot diplomats, a bicomunal effort to recover

and identify remains started in 2004; so far over 800 have been examined.

The parallels between Cyprus and Spain have been explored by two Belfast-based scholars, Josif Kovras and Neophytos Loizides, who say both cases highlight the same paradox. On one hand, there is an (often reasonable) sense in countries recovering from conflict (especially an interecine one where communities or even families were split) that opening tender wounds could reignite war. But "selective oblivion" and the peace it buys can't last for ever. One day people start remembering and they demand the truth. ■

#### Turks and Armenians

## The cost of reconstruction

ISTANBUL

It takes many hands to reconcile two peoples so divided by history

FOR centuries, a stone bridge spanning the emerald green waters of the Akhrius River connected the southern Caucasus to the Anatolian plains: a strategic pivot on the Silk Road, running through the ancient Armenian kingdom of Ani. Today the bridge would have linked tiny, landlocked Armenia to Turkey. But war and natural disasters have reduced it to a pair of stubs—a sad commentary on the relations between the two states.

This grim image prompted an Ankara-based think-tank, called Tepav, to devise a plan to rebuild the bridge and in so doing to reopen the long-sealed land border by stealth. "The idea is to promote reconciliation through cross-border tourism," explains Tepav's director, Guven Sak. Turkey's doveish president, Abdullah Gul, has embraced the plan. The Armenian authorities and diaspora Armenians with deep pockets are also interested. If all went

to plan, the bridge's restoration would only be the start of a broader effort to repair hundreds of other Armenian architectural treasures scattered across Turkey.

This semi-official stamp on a relationship in the absence of diplomatic ties (foreseen in an accord signed last October, but yet to materialise) would be a first. Yet academics, artists and journalists are striking peace on their own terms. Hardly a day passes without Turks and Armenians huddling at a reconciliation event.

It is a tricky business because true reconciliation means confronting the ghosts of the past. For decades Turkey denied the mass extermination of the Ottoman Armenians in 1915. Under Turkey's draconian penal code, anyone who dares to describe the Armenian tragedy as a genocide can end up in jail or even dead. In 2007 an ultra-nationalist teenager murdered Hrant Dink, an Armenian-Turkish editor who often wrote about the genocide. Although Ogun Samast pulled the trigger it is widely assumed that rogue security officials from the "deep state" gave him the gun.

Dink's death was a turning point. More than 100,000 Turks of all stripes showed up at his funeral bearing placards that read: "We are all Armenians." Indeed if the murder was intended to stifle debate it had the reverse effect. A growing number of Turks are uttering the g-word, Uğur Umit Ungor, a young Turkish academic is one of them. His research aims to show how many Young Turk cadres involved in the massacres continued to thrive after the republic was founded in 1923.

Others allude to history in more subtle ways. Take Mehmet Binay, a Turkish film director. His documentary "Whispering Memories" tells the story of ethnic Armenians in a village called Geben, who embraced Islam (presumably to avoid death at the hands of Ottoman forces). Sobs were heard during a recent screening of the film in Yerevan, Armenia's capital.

Although today's inhabitants of Geben hesitate to call themselves Armenians, a growing number of "crypto-Armenians" (people forced to change identity) do just that. Their stories were collected and recently published by Fethiye Cetin, a Turkish human-rights lawyer, whose grandmother revealed her own Armenian roots shortly before her death.

Meanwhile, an army of humble if accidental Armenian ambassadors are helping to melt the ice. Turkey says that as many as 70,000 illegal Armenian migrant workers, mostly women, eke out a living as servants and nannies in Istanbul. A recent study by Alin Ozanian, an Armenian-Turkish researcher shows that such women arrive full of fear of "the Turk" only to return with stories of kindness. If the land borders were to be reopened some day, their wages would not have to be spent on long, pricey bus rides through Georgia. ■



So near but yet so far



## Agribusiness in India

## Green shoots

MEHSANA, GUJARAT

Private investment is helping India's farmers in a way government support cannot

INDIA is the third-biggest producer of potatoes in the world. The humble spud finds itself stuffed into flatbread, encrusted in cumin seeds or tucked into pancakes. But the truckloads of large, oblong potatoes that arrive at the McCain Foods plant in the Mehsana district of Gujarat face a more exacting ordeal. Ferried by a conveyor belt and propelled by water, they are sized, steam-peeled, sliced, diced, blanched, dried, fried (for precisely 42 seconds in vegetable oil at 199°C), chilled, frozen, bagged and then boxed.

The 15kg boxes of fries that emerge at the other end of this pipeline supply the growing chain of McDonald's restaurants in India. When McDonald's first entered India in 1996, the food-processing industry was confined largely to ice cream and ketchup. Even importing frozen fries was complicated by the fact that such an exotic item did not appear on India's schedule of tariffs and quotas. It took McDonald's roughly six years and \$100m to weld a reliable supply chain together.

For fries, that supply chain begins with 2,000 acres of potato fields in Gujarat, cultivated by 400 farmers under contract with McCain Foods. These cultivators belong to a profession which still employs about half of India's workforce. In Gujarat, agriculture is growing almost as quickly as the rest of the Indian economy. But elsewhere, agriculture is said to be in crisis. The aver-

age size of farmers' landholdings is only about 1.3 hectares. If their fields are irrigated at all, they are flooded wastefully, with water flowing down furrows on either side of the crop, taking valuable nitrogen with it. India produces more tractors than any other country, but many farmers still use bullocks instead. They sell their produce at controlled prices in government *mandis*: marketplaces regulated by the state with the aim of protecting farmers from exploitation by unscrupulous traders.

State governments once took it upon themselves to spread know-how, market intelligence and the fruits of agricultural research to smallholders. But the agricultural extension system is now in some disrepair. Public investment in agriculture has stagnated over the past few years as the government's subsidy bill for food, fertilizer and fuel has risen.

In the absence of public investment, Indian agriculture is increasingly dependent on private outlays, which now account for three-quarters of total investment in the sector. McCain Foods, for example, invested \$25m in the Mehsana plant. And in the absence of government extension services, some private companies are finding alternative ways to let farmers know what the customer expects, and how to meet that expectation.

Hitesh Patel, for example, used to grow cottonseed on his six hectares in Idar vil-

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lage, about 125km (80 miles) from the Mehsana plant. Four years ago he planted a hectare of potatoes at McCain Foods' urging and under its guidance. Now he plants potatoes on all of the six hectares he owns and another 1.6 he has leased.

McCain Foods offers him an assured price of 6.50 rupees (\$0.14) per kilogram of potatoes, a better rate than the *mandi*. But they will not buy just any potato. India's common varieties are too small, watery and sugary, caramelising when fried.

Potatoes fit for processing are usually grown in more temperate latitudes. The tuber likes warm days and cool nights. "Wherever are the best regions for wine, potato is not far behind," says Ghislain Pelletier, a McCain agronomist. Firms before McCain had tried and failed to produce potatoes in India that were suitable for processing into fries. Even Harrison McCain, one of the company's founders, doubted it could be done.

But after several years of experimentation, McCain can now supply all of McDonald's needs in India, as well as producing some creations of its own, like Masala Fries. "We used to struggle for size; now we struggle to reduce the size," says Devendra Kumar of McCain India.

McCain's agronomists would first visit farmers like Mr Patel every other day. Now they check in once a week. They insist that farmers give up flooding their furrows with water in favour of drip irrigation, which flows through a pipe punctuated with small nozzles laid along the crop-bed. Drip irrigation produces "more crop per drop", as Mr Pelletier puts it. It moistens the soil at each root, but leaves the ground otherwise dry. This in turn reduces the humidity that attracts pests and blight.

This kind of contract farming began with Punjabi farmers growing tomatoes ▶



► for Pepsi's food business in the 1980s. But its spread was hampered by tight regulations at the state level on who could buy produce and how. Most states have now eased those restrictions, raising hopes that contract farming—which only accounts for a small fraction of India's annual agricultural output of \$220 billion—will flourish.

As incomes in India rise, tastes are changing. Staples are receding in importance. In 1983 food grains accounted for 32% of India's agricultural output; 15 years later they accounted for less than a quarter, according to Ashok Gulati of the International Food Policy Research Institute. But food grains still occupy nearly 64% of India's farmland and an even higher fraction of government concern and energy. "In India, cereals are being increasingly overtaken by fruits, vegetables, milk, eggs and poultry," Mr Gulati argues.

McDonald's, for example, recently introduced the Chicken McNugget to India, where it counts as a premium product: all white meat without any bone. When the firm first entered the country, it struggled to find poultry suppliers who could debone meat. Because the chain's products are del-

icate or perishable they must be handled with far more care than rice or wheat. Frozen fries, for example, are so brittle that they must be handled like eggs. But McDonald's also found that the few refrigerated lorries in the country were mostly devoted to transporting ice cream.

Investments by multinationals like McDonald's can spread into the wider economy. McDonald's, for example, invited East Balt Commissary of Chicago, whose founder supplied buns to Ray Kroc's first McDonald's franchise, to go to India to train the Cremica bakeries in Delhi and Mumbai. East Balt is what Abhijit Upadhye of McDonald's India calls a "good system player". It also asked Schreiber International, which supplies sliced cheese, to tie up with Dynamix Dairy in India. As a result, many other companies, including Nestlé, Unilever and Pepsi, started doing business with Dynamix.

The economic benefits to Gujarat's farmers will also spread. Mr Patel, for one, cannot wait to harvest his potatoes and receive his payment from McCain. He wants to trade in his Maruti-Suzuki car for a grander model made by Honda. ■

#### Protectionism and defence procurement

## The best plane loses

#### Politics decided the contest to supply America's new aerial fuel tanker

IN THE end, they bowed to the inevitable. The decision this week by Northrop Grumman and its partner, EADS, to withdraw from a \$35 billion contest with Boeing to provide the United States Air Force (USAF) with a new generation of aerial tankers had been well trailed, but it was still a bitter blow to the two defence firms. It was also a bad day both for America's taxpayers and its armed forces.

Political controversy has never been far from the battle to replace USAF's 500 or so Eisenhower-era KC-135 tankers. Boeing first won the contract in 2002 and then lost it when a congressional investigation discovered criminal collusion between the aerospace firm and an air-force official. Six years later, Northrop and EADS, the parent company of Airbus, pulled off a surprise victory when the USAF decided that the KC-45, its bigger and more modern (though more expensive) plane, based on the Airbus A330, represented better value than Boeing's offering, based on the 767.

Most neutral experts agreed that the KC-45 was the better aircraft. But the Pentagon's willingness to brave outraged claims from Congress that it was showering money and jobs on a European company "un-

fairly supported and subsidised by foreign powers" was a surprise. When Boeing protested, producing 120 complaints about the bidding process that (partly because of the earlier scandal) had been unusually fair and transparent, the Government Accountability Office (GAO), a congressional watchdog, upheld seven of them. The nub of Boeing's complaint was that the USAF had used subjective criteria to reach its decision in favour of the KC-45, which had inherently disadvantaged its smaller plane.

The GAO has the power only to recommend, so the Pentagon could have stuck to its guns. Instead, the air force issued a new draft Request for Proposals (RFP) last September that in effect nullified the KC-45's advantages—that it can deliver more fuel to front-line aircraft and evacuate more troops. A Northrop executive described the terms as a "lowest-common-denominator approach designed to favour a less capable, smaller aircraft by turning the contest into a cost shoot-out." Northrop told the Department of Defence that unless the RFP was revised in its final version, it would not bid. Apart from some minor tweaks, nothing changed, ensuring that Boeing would be left as the sole bidder.

The two Republican senators from Alabama, where EADS was planning to establish an assembly line to build the KC-45 and a freighter version of the A330, were quick to condemn what they regard as a political stitch-up that put jobs in traditionally Democratic Washington state (Boeing's home) before employment in their region. Senator Richard Shelby says: "The final RFP discredits the integrity of the entire process." Senator Jeff Sessions believes Northrop's forced withdrawal has left an "irreparable stain" on a programme already marked by scandal.

There have also been expressions of anger in Europe. Germany's economy minister, Rainer Brüderle, said he saw "signs of protectionism". The European Commission issued a statement saying that it "would be extremely concerned if it were to emerge that the terms of tender were such as to inhibit open competition for the contract." The commission also noted that the trade in military gear between the European Union and America strongly favours the latter—in 2008 America exported \$5 billion-worth but imported only \$2.2 billion from Europe.

As for EADS, all is not lost. Its A400m military transport may have cost it a lot of money: this week it announced a charge for the troubled programme of €1.8 billion (\$2.5 billion). But it is an aircraft with unique abilities that could appeal to the USAF—if the airfield is level. ■



Lots of fuel, but no customers



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Who's the boss of Fujitsu?

## Boomerang

TOKYO

What a bizarre leadership row says about Japanese business

MANY former executives find retirement dull. But few react like Kuniaki Nozoe, the former boss of Fujitsu, one of Japan's biggest computer companies. He stepped down as president in September, but is now demanding that Fujitsu "nullify" the resignation.

In a four-page letter sent last month to the board of directors, the 62-year-old Mr Nozoe claims that he was unjustly forced out without even having submitted a formal resignation. After a hastily convened board meeting on March 6th, Fujitsu admitted that it had ousted Mr Nozoe due to his association with a person suspected of having ties to organised crime—not for the “health reasons” cited at the time. Such ties could, in theory, get a firm delisted from the Tokyo Stock Exchange (TSE). But Fujitsu has found itself in trouble with the TSE anyway. On March 9th the exchange scolded the company for its “inadequate disclosure” of the reasons for Mr Nozoe's departure. Mr Nozoe, meanwhile, does not really want his old job back or a payout, but rather to have his honour restored, says his lawyer, Kei Hata.

For all its oddities, the row is, at its root, a reflection of the peculiar status of Japanese bosses. They are often mere figureheads who serve for a short time before handing the baton to other old company hands. Firms are run by consensus, not individuals. Indeed, the lifetime employment system makes bosses loth to rock the boat (and means they have few other job options if they do). So when a board requests a resignation, as it did at Fujitsu, employees loyally fall on their swords. Bosses then tend to take up ceremonial yet well paid positions as “senior advisers” (such as the one Mr Nozoe himself enjoyed until he started complaining about his ouster). That Mr Nozoe was quietly asked to step down without any proof of wrongdoing is also typical.

The irony is that under Mr Nozoe, Fujitsu was a model of corporate reform. He actively sought to restructure the bloated company, which has roughly 175,000 employees and around \$50 billion in annual revenue, but makes meagre profits. Mr Nozoe accelerated Fujitsu's drive to shed hardware business and move into services, where margins are better. He sold Fujitsu's hard-drive unit to Toshiba, outsourced some chip production to Taiwan's TSMC, took control of Fujitsu's European joint venture with Siemens and focused



the company on cloud computing as a new growth area. Services now account for over half of sales, though some two-thirds of the company's revenues are domestic at a time when the home market is stagnant.

Fujitsu is also among the few Japanese firms that has done away with a sprawling board of company insiders in favour of a modest nine directors, three of them independent. By forcing them to review his departure, Mr Nozoe may help instil one last reform: greater transparency and accountability at the level of the board. ■

Xstrata and Glencore

## A meeting of mines

The future of two commodity titans complicated by their ties

IN HIS early teens, long before going into bat as boss of Xstrata, Mick Davis qualified as South Africa's youngest-ever cricket umpire. The game's complex rules may remind him of Xstrata's intertwined relations with its biggest shareholder, Glencore. The private commodity trader based in Switzerland, which owns 34% of the miner and the marketing rights to some of its output, gives little away about its operations, usually earning it the tag “secretive”.

Xstrata, one of the world's biggest mining firms, was born out of the initial public offering (IPO) of Glencore's coal mines in 2002. It has grown spectacularly since and is now worth some \$52 billion. The latest shifting of assets between the pair came on March 5th when Xstrata said Glencore had exercised an option to repurchase Prodeco, a Colombian coal mine. Glencore had sold the mine to Xstrata last year for \$2 billion, to raise the funds to participate in Xstrata's rights issue.

At a repurchase price of \$2.25 billion plus any outstanding profits and reimbursement for money invested in the busi-

ness, Xstrata will profit from the deal. Glencore, whose finances have been buoyed by rising commodity prices, gets back a low-cost, long-lived mine that it probably values at something over \$4 billion.

Xstrata, whose history is one of serial dealmaking, would doubtless have liked to hang on to the mine. But Mr Davis is used to moving on swiftly. In 2008 discussions about a \$90 billion merger proposed by Brazil's Vale foundered over price. Next, Mr Davis proposed a merger with Anglo American, once ranked as one of the titans of the industry. But his refusal to offer a premium earned a swift rebuff from Anglo.

With few big firms left to target and loans harder to come by, Xstrata announced last month that it would concentrate on organic growth. This is something of a change of tack. Xstrata's skill has been in buying lower-quality mines and running them more efficiently. It has done this with an unusually decentralised management: Xstrata employs only 50-odd people at its main offices in Switzerland and London. Mr Davis trusts the business instincts of his unit heads.

But what of Mr Davis's dealmaking instincts? If Anglo's current attempts at restructuring founder, its shareholders may welcome renewed interest from Xstrata. Another possibility is a merger with Glencore. The huge trading and logistics operation, backed by a savvy business-intelligence unit, has a global presence in a vast array of commodities that far exceeds that of rivals such as Cargill or Trafigura. Scale and an uncanny ability to predict commodity-price movements has allowed Glencore to make decent returns in a business where margins are wafer-thin. On March 10th it announced net profits of \$2.7 billion on revenues of \$106 billion.

Glencore also owns shares of mines beyond Prodeco, although some are of dubious quality. But it struggled to agree on a valuation of Prodeco with Xstrata, and would presumably face the same problem ►►



The stuff that deals are made of

with its other assets—meaning a merger would be tricky to negotiate.

Another possibility is an IPO. The shift from private to public would be a giant step for Glencore, but its current partnership structure makes it hard to raise money in the markets to fund future growth. The issue of \$2 billion in convertible bonds in December, with a maturity of 2014 at the latest, has set the clock ticking. The issue values Glencore at \$35 billion. But the firm may delay an offering in the hope that rising commodity prices will boost that figure. If Glencore does choose to go public, it will be subject to much more onerous reporting and disclosure rules. That may simplify its relations with Xstrata, but will doubtless also reveal some of the strategies that underpin its trading success. ■

#### Amazon auctions computing power

## Clouds under the hammer

Processing capacity is becoming a tradable commodity

IF YOU are tired of hearing the word "cloud" attached to every term in the computing lexicon, you are not alone. Disillusioned tech folks are beginning to succumb to "cloud fatigue". But the concept of computing as a basic utility delivered over the internet is here to stay. In fact, the industry is already taking the first steps toward turning computing power into a tradable commodity akin to electricity.

In the electricity business, it was the invention of something called the "rotary converter" and other transformers that led to the rise of the power utility. It allowed power from different generators to be pooled and distributed over the grid. The analogous technology in cloud computing is virtualisation. This separates software from hardware, allowing many programs to run on any machine, and indeed to switch between them. Although hardware stays in one place, "virtual machines" consuming processing power can jump around, even between far-flung data centres. Virtualisation has also given rise to big "cloud providers", which offer computing power on demand, such as Amazon Web Services, a subsidiary of the eponymous online-shopping giant.

It took decades for electrical power to become a tradable commodity. Computing seems to be getting there faster. Standards bodies are working on rules that would make it easier to move virtual machines around, and a raft of start-ups are making this their business. Zimory's software ties together corporate data centres so that they work as one. Cloudkick offers

tools to manage virtual machines. It is the force behind libcloud, an open-source project that facilitates the development of services spanning different clouds. And RightScale is a pioneer in "cloud brokering", meaning that it helps customers switch between clouds or use several different ones so they do not have to keep all their eggs in one computing basket.

The industry's heavyweights, too, are working to make computing more fungible. VMware, which leads the pack in virtualisation software for corporate data centres, has also begun selling its products to providers of computing services. If corporate data centres ("private clouds" in the lingo) and cloud providers ("public clouds") use the same software, virtual machines can more easily move between them and firms can quickly add capacity (which is called "cloud bursting"). Cisco, the world's biggest maker of networking equipment, has announced new technology to link up separate data centres. This is the linchpin of its vision of an "inter-cloud"—a cloud of clouds in the same way the internet is a network of networks.

Yet it is probably Amazon that will be seen as the firm that really launched computing markets. In December it introduced a new pricing option: customers bid for the retail giant's unused computing capacity and get to run their virtual machines as long as their bid exceeds the minimum price needed to balance supply and demand. As a result, the price jigs up and down all day like those of pork bellies or wholesale power (see chart). This system does not lend itself to all applications, since the virtual machines may be shut down at any time, when the spot price rises above the user's bid, says Peter De Santis of Amazon Web Services. But it has already made customers think about computing in more economic terms, by asking what a given job is worth to them.

Amazon's "Spot Instances" have also led to an animated debate among the cloud cognoscenti about how computing will evolve. Some argue that it will go the way of power and even financial markets, complete with arbitrage, derivatives and

hedging. Reuven Cohen, a blogger and co-founder of Enomaly, a maker of software that allows firms to build public clouds, thinks that such things will come quickly as technology improves. In contrast, James Urquhart, a blogger who works for Cisco, argues that there are barriers that could prevent computing from becoming freely tradable. Virtual machines may travel easily, but the related data is much harder to move. That is not just for technical reasons, but also for legal ones: some European countries, for example, do not allow certain types of data to be exported. Moreover, big cloud providers have no interest in turning computing into a true commodity. Instead, they want to lock customers into their clouds, and offer additional services, such as various types of data storage, to that end.

Both visions of the future may turn out to be right. Virtual machines will indeed increasingly move about, but mostly within private and public clouds or trusted federations of them. Some large providers are already experimenting with approaches such as "follow the moon": virtual machines that migrate wherever demand and temperature is lowest—most often to time zones where night has fallen, when computers tend to sit idle and cooling them is cheaper. Unfortunately, the coining of new jargon is likely to proceed even faster than the evolution of computing markets. ■

#### Executive pay in America

## Cheques and balances

NEW YORK

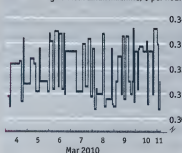
Efforts to reform how bosses' salaries are set are unlikely to work

SPRING is in the air, bringing with it angry thoughts about executive pay. This year the economic downturn is adding extra emotion to the season's familiar fury. Unions are, for example, outraged at the \$2m paid in 2009 to Sam Palmisano, IBM's boss, not least because his firm laid off 10,000 workers in America last year. A union that owns shares in Goldman Sachs is suing to stop it paying bonuses to its employees. It wants the investment bank's senior managers to shell out personally for the \$500m charitable donation it made last year, which the lawsuit, filed on March 8th, describes as "an apology for taking enormous bonuses".

Some boards and bosses have made concessions to the public mood. Jeff Immelt, the boss of General Electric, declined to take the cash bonus he was due for the second year in a row. His basic salary has not gone up since 2005, although his total compensation for 2009 was still a healthy ▶▶

#### Cloud spotting

Price of a large virtual Linux machine, \$ per hour



Source: Amazon Web Services/CloudExchange



Hard times on pearl farms

## South sea bubble

SINGAPORE

A surfeit of farmers and shortage of buyers tarnishes a once lustrous business

YOU can hear the relief in Rosario Autore's voice when he talks about how his firm, Autore Pearls, one of the world's largest pearl suppliers, survived the past 18 months. "Within the pearling industry we had a tough time," he says. A slump in sales thanks to the global economic downturn and unexpected currency movements played a part. But the main problem underpinning the industry's woes is a supply glut.

Andy Muller, a dealer based in Japan, estimates that the worldwide production of cultured "South-Sea" pearls (from South-East Asia, Australia and the Pacific) increased from 2.4 tonnes in 1998 to 12.5 tonnes last year. The increase was due chiefly to the rapid expansion of pearl-farming in Indonesia, the Philippines, and, to a lesser extent, Myanmar. This has dimmed South-Sea pearls' glow: the value of the harvest at the farm gate fell from \$220m to \$172m over the same period. "At present, the cake served to overfed and cash-strapped consumers is

too large to be digested," Mr Muller says.

That leaves many pearl farms selling their wares below cost. In the Indonesian province of West Nusa Tenggara, 33 of 36 producers are said to have gone out of business. Some producers are responding by climbing up the value chain, making jewellery from their own pearls.

Others see the quota system that has restricted the supply of Australian pearls for almost 30 years as a model. "Good quality strands made from Australian South-Sea pearls still command prices of A\$100,000 (\$92,000) or more—the same as ten years ago," says Andrew Hewitt of Arafura Pearls, an Australian producer.

Mr Autore thinks a global grading system is needed to identify pearls of the highest quality, wherever they come from. "A good pearl is rarer than a diamond," he says. But there is no agreement about what colour or other qualities are most desirable. Consumers, in the meantime, are grading pearls with their pocketbooks.

ing their top brass.

At the same time, firms are being required for the first time to disclose the fees they pay to consultants on executive pay. In recent years most of the biggest firms in America have received advice on how much to pay their managers from consultants who also helped them manage pay and benefits for other employees. The fees earned for this broader advice dwarf those for the guidance on executive compensation (by about 11 to one, according to a recent congressional inquiry). That has given rise to the suspicion that the consultants tend to recommend generous pay cheques for bosses in order to curry favour with management and thus keep the other work rolling in. The disclosure rules are intended to highlight—and, with luck, defuse—this conflict of interest.

The rules are already having an effect, although not the intended one. Disclosure of fees is only required when a board is advised on compensation by a consultant who also advises the company on other benefits. To avoid this requirement, many boards have decided to hire an independent compensation consultant, allowing the firm to continue to pay undisclosed fees to its benefits consultant for other advice. This has prompted a restructuring of the executive compensation industry, with significant numbers of consultants leaving prominent firms such as Mercer, Hewitt and Towers Watson. Ira Kay, a veteran compensation consultant who has left Towers Watson to start his own boutique firm, says, "I was losing clients due to the conflict-of-interest rules."

Will this change actually reduce excessive executive pay? Don't bet on it. "The new rules are a prescription to make pay go up," argues Kevin Murphy, an economist at the University of Southern California. When he studied the relationship between consultants and executive compensation, he found that pay tends to be higher when a firm hires more consultants. Pay also tends to rise when the board hires its own pay consultant. Both tendencies are likely to increase under the new rules. Behind this counter-intuitive result may be the "mistaken assumption that the board will actually want to limit pay," says Mr Murphy. In reality, he believes, consultants provide generous directors with "cover and comfort".

Boards naturally believe that the person they have appointed to run their company is more capable than the average boss. Suggesting otherwise by withholding pay rises and bonuses would call their judgment into question. Nell Minow of the Corporate Library, a corporate-governance watchdog, may be right that "the only thing that will have an impact on executive pay is giving shareholders the ability to throw out board members who get it wrong. Disclosure is not enough." ■

► **Stom**, 6.5% more than in 2008. Howard Schultz, the boss of Starbucks, opted out of the executive bonus scheme last year and asked for his basic salary to be cut from over \$5m to almost nothing. But he ended up receiving \$12m, after the board awarded him a discretionary bonus.

There is even a new fad nicknamed the "pity bonus", paid to bosses who failed to qualify for a big enough payout under the established bonus scheme due to the unforgiving economy. Mark Hurd, the boss of HP, was given an extra \$5m bonus on top of the \$51m he received under the firm's annual incentive scheme to reflect the

board's view that he had not been "fully rewarded" for relative outperformance against competitors such as Dell. The board of BP, an oil firm, also awarded a discretionary bonus to Tony Hayward, its boss, after his performance fell short under the existing bonus scheme.

Yet there are hopes that excessive salaries will wither this year, thanks to new rules rushed into force last month by America's Securities and Exchange Commission. The proxy statements that American corporate giants are currently releasing contain the most comprehensive accounts ever produced of what companies are pay-



# Schumpeter | Skirting the issue

Imposing quotas for women in boardrooms tackles a symptom of discrimination, not the cause



**I**F YOU are a youngish man who sits on a European corporate board, you should worry: the chances are that your chairman wants to give your seat to a woman. In January the lower house of France's parliament approved a new law which would force companies to lift the proportion of women on their boards to 40% by 2016. The law would oblige France's 40 biggest listed firms to put women into 169 seats currently occupied by men. Spain has also introduced a quota at 40%, to be reached by 2015. Italy and the Netherlands are contemplating similar measures. This week Britain's government threatened to make companies report formally on their recruitment of female directors.

Compared with America, where women held 15% of board seats at Fortune 500 companies in 2009 according to Catalyst, a lobbying organisation, European countries have relatively few female board members. Britain is not too far behind at 12%, according to a survey of Europe's 300 biggest firms by the European Professional Women's Network (EPWN). Spain, Italy, France and Germany, however, all lag behind the European average of 10%.

The exception is Scandinavia, and in particular, Norway, where quotas for women on boards originated. In 2005 the government gave listed firms two years to put women in 40% of board seats on pain of liquidation. Businessmen howled. Riulf Rustad, a professional investor with stakes in several Norwegian companies, said 70% of the new recruits would fail. In fact, there have been no obvious disasters. But a close look at Norway nonetheless suggests that imposing high gender quotas with tight deadlines can be bad for companies.

The Norwegian government was interested in social justice; it made no claims that putting women on boards would improve corporate performance or governance. Finding qualified women in a country where only 9% of board seats were held by women in 2003 and the vast majority of senior corporate jobs are filled by men proved challenging. According to a study by the University of Michigan, Norwegian firms have lost lots of boardroom experience: the new, younger women directors have spent less time running companies on average, are less likely to sit on other boards and are more likely to come from middle management.

DNO International, a Norwegian oil firm, appointed two new female directors in 2007. The three men on DNO's board have a

combined 66 years of experience in the oil business, but the new women directors have none; instead they have backgrounds in accounting and human resources. Schibsted, an international media group based in Oslo, selected all three of its new female directors from Sweden, one of its main markets. "If we hadn't had the Swedish pool to draw from, the law would have been far more difficult for us," says a senior executive at the firm.

The usual arguments for adding women directors are that diverse boards are more creative and innovative, less inclined to "groupthink" and likely to be more independent from senior management. Numerous studies show that high proportions of women directors coincide with superior corporate performance. But there is little academically accepted evidence of a causal relationship. It may be that thriving firms allow themselves the luxury of attending to social issues such as board diversity, whereas poorly performing ones batten down the hatches.

Women do seem to be particularly effective board members at companies where things are going wrong. A 2008 paper on the impact of female directors by Renée Adams and Daniel Ferreira of the University of Queensland and the London School of Economics found that bosses of American firms whose shares perform poorly are more likely to be fired if the firm has a relatively high number of women directors. On average, however, the paper concluded that firms perform worse as the proportion of women on the board increases. There is certainly no shortage of companies capable of producing stellar results with few or no women on the board. LVMH, a successful French luxury-goods group whose customers are mostly women, has had just one female director over the past ten years: Delphine Arnault, daughter of the firm's chief executive and controlling shareholder.

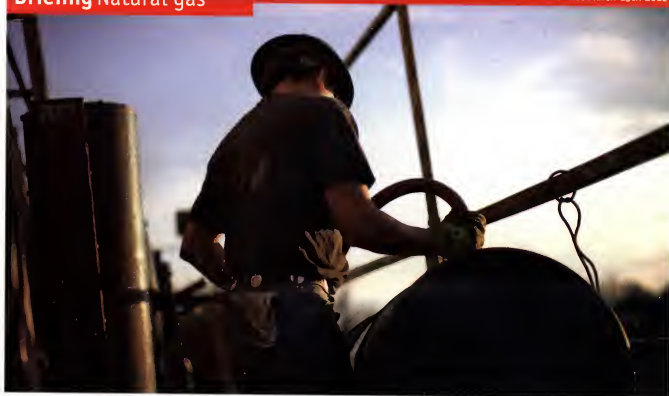
Nor is there any doubt that in many cases low female representation also reflects a broader lack of meritocracy in corporate culture. In France, for instance, interlocking board memberships are common. Women, and many other deserving businesspeople, are excluded from the system. Emma Marcegaglia, head of Confindustria, Italy's main business lobby, says the dearth of women on boards and in management mainly reflects a controlling male elite at the top of business, the members of which have hardly changed for the past 30 years. (Silvio Berlusconi, Italy's prime minister and a prominent tycoon, last year referred to Ms Marcegaglia as a "velina" or showgirl.)

## Core mission

But what most prevents women from reaching the boardroom, say bosses and headhunters, is lack of hands-on experience of a firm's core business. Too many women go into functional roles such as accounting, marketing or human resources early in their careers rather than staying in the mainstream, driving profits. Some do so by choice, but others fear they will not get ahead in more chauvinist parts of a business. Getting men to show up at every board meeting—another effect of having more women on boards—is all very well, but what firms really need is savvy business advice. Yet according to EPWN, the pipeline of female executives is "almost empty": women occupy only 3% of executive roles on boards, compared with 12% of non-executive ones.

That suggests that the best way to increase the number of women on boards is to ensure that more women gain the right experience further down the corporate hierarchy. That may be a slower process than imposing a quota, but it is also likely to be a more meaningful and effective one. ■





## An unconventional glut

HOUSTON

Newly economic, widely distributed sources are shifting the balance of power in the world's gas markets

SOME time in 2014 natural gas will be condensed into liquid and loaded onto a tanker docked in Kitimat, on Canada's Pacific coast, about 650km (400 miles) northwest of Vancouver. The ship will probably take its cargo to Asia. This proposed liquefied natural gas (LNG) plant, to be built by Apache Corporation, an American energy company, will not be North America's first. Gas has been shipped from Alaska to Japan since 1969. But if it makes it past the planning stages, Kitimat LNG will be one of the continent's most significant energy developments in decades.

Five years ago Kitimat was intended to be a point of import, not export, one of many terminals that would dot the coast of North America. There was good economic sense behind the rush. Local production of natural gas was waning, prices were surging and an energy-hungry America was worried about the lights going out.

Now North America has an unforeseen surfeit of natural gas. The United States' purchases of LNG have dwindled. It has enough gas under its soil to inspire dreams of self-sufficiency. Other parts of the world may also be sitting on lots of gas. Those in the vanguard of this global gas revolution say it will transform the battle against car-

bon, threaten coal's domination of electricity generation and, by dramatically reducing the power of exporters of oil and conventional gas, turn the geopolitics of energy on its head.

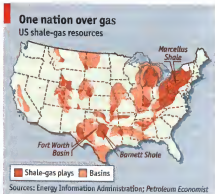
### Deep in the heart of Texas

The source of America's transformation lies in the Barnett Shale, an underground geological structure near Fort Worth, Texas. It was there that a small firm of wildcat drillers, Mitchell Energy, pioneered the application of two oilfield techniques, hydraulic fracturing ("fracing", pronounced "fracking") and horizontal drilling, to release natural gas trapped in hardy shale-rock formations. Fracing involves blasting a cocktail of chemicals and other materials into the rock to shatter it into thousands of pieces, creating cracks that allow the gas to seep to the well for extraction. A "proppant", such as sand, stops the gas from escaping. Horizontal drilling allows the drill bit to penetrate the earth vertically before moving sideways for hundreds or thousands of metres.

These techniques have unlocked vast tracts of gas-bearing shale in America (see map). Geologists had always known of it, and Mitchell had been working on exploit-

ing it since the early 1990s. But only as prices surged in recent years did such drilling become commercially viable. Since then, economies of scale and improvements in techniques have halved the production costs of shale gas, making it cheaper even than some conventional sources.

The Barnett Shale alone accounts for 7% of American gas supplies. Shale and other reservoirs once considered unexploitable (coal-bed methane and "tight gas") now meet half the country's demand. New shale prospects are sprinkled across North America, from Texas to British Columbia. One authority says supplies will last 100 years; many think that is conservative. In 2008 Russia was the world's biggest gas producer (see chart 1 on the next page); last year, with output of more than 600 billion cubic metres, America probably overhauled it. North American gas prices have slumped from more than \$13 per million British thermal units in mid-2008 to less ▶▶



than \$5. The "unconventional"—tricky and expensive, in the language of the oil industry—has become conventional.

The availability of abundant reserves in North America contrasts with the narrowing of Western firms' oil opportunities elsewhere in recent years. Politics was largely to blame, as surging commodity prices emboldened resource-rich countries such as Russia and Venezuela to restrict foreign access to their hydrocarbons. "Everyone would like to find more oil," says Richard Herbert, an executive at Talisman Energy, a Canadian firm using a conventional North Sea oil business to finance heavy investment in North American shale. "The problem is, where do you go? It's either in deep water or in countries that aren't accessible." This is forcing big oil companies to get gassier.

The oil majors watched from the sidelines as more entrepreneurial drillers proved shale's viability. Now they want to join in. In December Exxon Mobil paid \$4.1 billion for XTO, a "pure-play" gas firm with a large shale business. BP, Statoil, Total and others are sniffing around the North American gas patch, signing joint ventures with producers such as Chesapeake Energy. A wave of consolidation is likely in the coming months, as gas prices remain low, the drillers seek capital and the majors hunt for the choicest acreage.

Shale is almost ubiquitous, so in theory North America's success can be repeated elsewhere. How plentiful unconventional resources might be in other regions, however, is far from established. The International Energy Agency (IEA) estimates the global total to be 921 trillion cubic metres (see chart 2), more than five times proven conventional reserves. Some think there is far more. No one will really know until companies explore and drill.

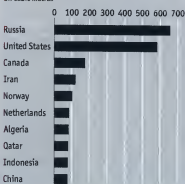
The drillers are already arriving in Europe and China, which are both expected to import increasing amounts of gas—and are therefore keen to produce their own. China has set its companies a target of producing 30 billion cubic metres a year from shale, equivalent to almost half the country's demand in 2008. Several foreign firms, including Shell, are already scouring Chinese shales. After a meeting between the American and Chinese presidents last November, the White House announced a "US-China shale gas initiative": American knowledge in exchange for investment opportunities. The IEA says China and India could have "large" reserves, far greater than the conventional resource.

Exploration is also under way in Austria, Germany, Hungary, Poland and other European countries. The oil industry's minnows led this scramble, but now the big firms are arriving too. Austria's OMV is working on a promising basin near Vienna. Exxon Mobil is drilling in Germany. Talisman recently signed a deal to explore for

### A leader under pressure

Top ten natural-gas producers, 2008

Bn cubic metres



Source: IEA

shale in Poland. ConocoPhillips is already there. The first results from wells being drilled in Poland, in what some analysts believe is a shale formation similar to Barnett, should be released this year.

No one expects production of shale gas in Europe to make a material difference to the continent's supply for at least a decade. But the explorers in China and Europe present a long-term worry for those who have bet on exporting to these markets. Gazprom, Russia's gas giant, is the company most exposed to this threat, because its strategy relies on developing large—and costly—gasfields in inhospitable places. But Australia, Qatar and other exporters also face a shift in the basics of their business.

### Choked

These producers are already getting a taste of the global gas glut. Almost in tandem with the surge in American production, recession brought a slump in world demand. The IEA says consumption in 2009 fell by 3%. In Europe, the drop was 7%. Consumption in the European Union will grow marginally if at all this year and will not be sufficient to clear an overhang of supplies, contracted through take-or-pay agreements signed in the dash for gas of the past decade. IHS Global Insight, a consultancy, reckons that the excess could amount to 110 billion cubic metres this year, almost a quarter of the EU's demand in 2008.

The glut has been exacerbated by the suddenly greater availability of LNG. Importers with the infrastructure to receive and regasify LNG can now easily tap the global market for spot cargoes. This is partly a product of the recession, which dampened demand from Japan and South Korea, the leading LNG buyers. But another cause is that many exporters, not least Qatar, the world's LNG powerhouse, spent the past decade ramping up supplies aimed at the American market. That now looks like a blunder.

America is still taking some of this LNG, but the exporters' bonanza is over before it

ever really began. "You'll always find a buyer in North America," says Frank Harris, an analyst at Wood Mackenzie, a consultancy, "but you might not like the price." And LNG will grow increasingly abundant as new projects due to come on stream this year add another 80m tonnes to annual supply, almost 50% more than in 2008.

Qatar's low production costs mean it can still make money, even in North America. Others cannot. In February, for example, Gazprom postponed its Shtokman gas-field project by three years because of the change in the market. Some of the gas from that field, in the Barents Sea, was to be exported to America. But Shtokman's gas will be costly, because the field is complex and its location makes it one of the world's most difficult energy projects to execute. Some analysts now wonder whether gas will ever flow from Shtokman.

China offers some hope for ambitious exporters, but even there the outlook has become cloudier. The Chinese authorities want natural gas to account for at least 10% of the country's energy mix by 2020 and are building LNG import terminals. With that target in mind, Australia, which has its own burgeoning conventional and unconventional gas supplies, has been busily building an LNG export business. But warning lights are coming on. In January, PetroChina led a deal to buy gas from Australia's Browse LNG project expire. The original agreement was made in 2007, when LNG prices were soaring in Asia, but China can afford to be picky now. "Too many Australian LNG plants are chasing too little demand," says Mr Harris.

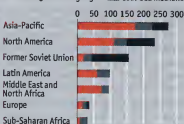
The shift in the global market has left China well-placed to dictate prices. This will be another blow to Gazprom, which has long talked of exporting gas to the country. Indeed, while the Chinese and the Russians have squabbled over the terms, Turkmenistan has quietly built its own export route to China. Even if Beijing's shale-gas plans come to nothing, supplies from Central Asia and new regasification terminals along its coast may allow China to reach its natural-gas consumption targets without pricey Siberian supplies.

### Rock music

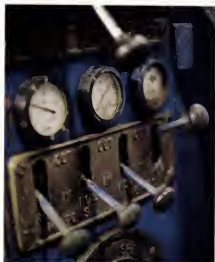
Estimated unconventional natural-gas resources

Tn cubic metres

Shale gas Tight gas Coal-bed methane



Source: IEA



Gas out, money in

▶ The glut has weakened Gazprom's position in Europe, too. It has been losing market share to cheaper Norwegian and spot-market supplies. In 2007 Gazprom talked of increasing its annual exports to the EU to 250 billion cubic metres. Now, says Jonathan Stern, of the Oxford Institute for Energy Studies, Gazprom will probably only ever supply the EU with 200 billion cubic metres a year (it shipped about 130 billion in 2008). The company forecast in 2008 that its gas prices in Europe would triple, to around \$1,500 per 1,000 cubic metres, on the back of rising oil prices, which help set prices in long-term contracts. But the price dropped to about \$350 last year and is expected to fall again in 2010. The weak market could last for another five years, believes Wood Mackenzie. Gazprom has been renegotiating with leading customers, injecting elements of spot pricing into contracts to make them more attractive.

### Shrokmanshtymied

Moreover, Europe's need for new pipelines to guarantee supplies suddenly looks less pressing. Construction of Nord Stream, Gazprom's flagship project to export gas directly to Germany through the Baltic Sea, will begin next month. It is due to come on stream in 2011. The scheduled doubling of its capacity to 55 billion cubic metres a year is in doubt, says Mr Stern, because Shrokmanshtymied was to have supplied the gas for it.

Demand is a bigger problem. Even without recession or European shale, the assumption that Europe's consumption will keep growing is looking shaky, because the EU's efforts to boost efficiency and reduce carbon emissions are making gradual headway. Edward Christie, an economist at the Vienna Institute for International Economic Studies, says the EU could be importing a third less natural gas in 2030 than the European Commission forecast in 2005. That makes the case for additional supply lines much less compelling.

ling. The IEA expects rich European countries' demand to grow by only 0.8% a year in the next two decades, against 1.5% for the world as a whole (see chart 3).

An age of plenty for gas consumers and of worry for conventional-gas producers thus seems to be dawning. But two factors could reverse the picture again. The first surrounds the uncertainty about how fruitful shale exploration will be outside North America. A clearer understanding of the geology will emerge from pilot wells in the coming months. Second, there are reasons for caution above ground, too. Despite natural gas's greener credentials than oil's or coal's, shale drilling has critics among environmentalists, who worry that water sources will be poisoned and landscapes despoiled.

The industry says cement casing of wells and the depth to which they are drilled make the practice safe and relatively unobtrusive. But so far it has been drilling mainly in North America, where land is plentiful and people are accustomed to the sight of oilmen's detritus. In densely populated Europe, the rapacious rate at which shale plays must be drilled to sustain production is less likely to be tolerated.

Even in America, opposition to shale gas is rising. New York state has imposed a moratorium on drilling in its portion of the Marcellus Shale, which it shares with Pennsylvania. Lawmakers in Congress want to study the ecological impact of fracking. The Environmental Protection Agency, a federal body, also raised concerns about "potential risks" to the watershed.

The path of demand in gas's new age is hard to predict, but abundant new sources could bring about profound change in patterns of energy consumption. Some of the downward pressure on price will ease: despite sedate growth, the LNG glut should dissipate, probably by 2014, says Mr Harris; and low prices will kill more projects, clearing the inventory. France's Total thinks global demand will recover strongly enough to require another 100m tonnes

a year of LNG by 2020, on top of plants already planned. However, the Energy Information Administration, the statistical arm of America's Department of Energy, predicts decades of relatively weak prices.

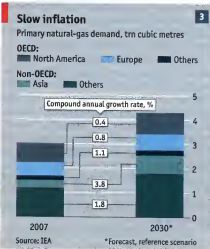
If this is correct, it makes sense, for both environmental and economic reasons, for the country to gasify its power generation, half of which comes from coal-fired plants. This could be done cheaply and quickly, because America's total gas-fired capacity (as opposed to production) already exceeds that for coal. Put a price of only \$30 a tonne on carbon, say supporters, and natural gas would quickly displace coal, because gas-fired power stations emit about half as much carbon as the cleanest coal plants. The IEA agrees that penalising carbon emissions would benefit natural gas at the expense of dirtier fuels.

There would be political obstacles. The coal lobby remains strong in Washington, DC. Climate legislation struggling through Congress even includes provisions to protect "clean coal", a term covering an array of measures, so far uncommercial, to reduce emissions from burning the black stuff. Ironically, oil companies that were once suspicious of proposals to control carbon now regard a carbon price or even a carbon tax as a potential boon to their new gas businesses.

A more radical idea, and one that would have ramifications for the global oil sector, is to gasify transport. T. Boone Pickens, a corporate raider turned energy speculator, has launched a campaign to promote this, and has support from the gas industry. By converting North America's fleet of 38-wheeled trucks to natural gas, says Randy Eresman, boss of EnCana, a Canadian gas company, America could halve its imports of Middle Eastern oil. EnCana is promoting "natural gas transportation corridors": highways served by filling stations offering natural gas.

All this is some way off. The coal industry will not surrender the power sector without a fight. The gasification of transport, if it happens, could also take a less direct form, with cars fuelled by electricity generated from gas.

A gasified American economy would have profound effects on both international politics and the battle against climate change. Displacement of oil by natural gas would strengthen a trend away from crude in rich countries, where the IEA believes demand has already peaked as a result of the recent spike in oil prices. Another consequence of the energy market's bull run, the unearthing of vast new supplies of gas, could bring further upheaval. If the past decade was characterised by the energy-security concerns of consumers, the coming years could give even the world's powerful oil producers reason to worry, as a subterranean revolution shifts the geopolitics of global energy supply again. ■





## Savings and the poor

## A better mattress

Microfinance focuses on lending. Now the industry is turning to deposits

IT IS hard for people in the rich world to imagine what it is like to live on \$2 a day. But for those who do, the problem is often not just a low income, but an unpredictable one. Living on \$2 a day frequently means living for ten days on \$20 earned on a single day. The task of smoothing consumption is made more complicated if there is nowhere to store money safely. In an emergency, richer people might choose between dipping into their savings and borrowing. The choice for the great mass of the unbanked in the developing world is limited to whom to borrow from, often at great cost.

That they can borrow at all is partly due to the rapid growth of microfinance, which specialises in lending small amounts to poor people. Several big microfinance institutions (MFIs) also offer savings accounts: Grameen Bank in Bangladesh is a prominent example. But the industry remains dominated by credit, and the ability to save through an MFI is often linked to customers' willingness to borrow from it. Of 166 MFIs surveyed in 2009 by the Microfinance Information Exchange, a think-tank, all offered credit but only 27% offered savings products. Advocates of a greater variety of financial services for the poor argue for more balance.

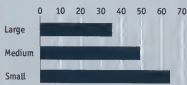
This may be on the horizon. More MFIs are becoming interested in the potential of

savings, thanks partly to the global financial crisis. A majority of more than 400 MFI managers surveyed last March by the Consultative Group to Assist the Poor (CGAP), a microfinance group based at the World Bank, said that they had faced liquidity problems during the crisis (see chart). This, together with rising financing costs and exchange-rate fluctuations for those MFIs that rely on external finance, has prompted many "credit-only" MFIs to warm to the idea of funding at least part of their lending activity using local savings.

The Bill & Melinda Gates Foundation has thrown its weight behind micro-savings. In January it announced grants worth \$38m to 18 MFIs in South Asia, Latin America and Africa to encourage them to expand their savings offerings. This is a big deal in

## Drying up

MFIs\* facing liquidity constraints, % of total†  
March 2009, by size of institution



Source: CGAP 2009 Opinion Survey

\*Microfinance Institutions †Based on a survey of over 400 institutions

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an industry which still takes many of its cues from donors. Bob Christen, the foundation's director of financial services for the poor, says that it sees the grants as a major step to "help broaden the microfinance business model to include savings".

It will take more than good intentions and a recognition that the poor want places to deposit the money they squirrel away to make micro-savings work. Part of the problem with trying to mobilise deposits from poor people is simple economics. It is hard to make a profit from customers who make lots of tiny deposits without massively trimming transaction costs.

The widespread use of mobile phones by poor people in developing countries may provide one answer. People in Kenya, for instance, already use a successful text-message-based service called M-PESA to transfer money electronically to other mobile users. And a new microinsurance scheme uses M-PESA to offer Kenyan farmers protection against bad weather (see box on next page).

But there are challenges for MFIs seeking to enter mobile banking. Ignacio Mas of the Gates Foundation points out that ensuring secure text-message transactions will often require an agreement with a mobile operator, which controls access to the phone's SIM card. That may be simple in places like Bangladesh, where MFIs also provide mobile services. In others, mobile operators may want to go it alone.

Banks and other financial institutions may also now find it easier to provide branchless banking for the poor. In its simplest form, a bank could appoint someone like a shopkeeper or mobile-airtime reseller as an agent who collects deposits and pays out withdrawals. A business model like this—making use of mobile phones—▶



## Microinsurance

## Security for shillings

## Insuring crops with a mobile phone

ONE of the things holding back agriculture in developing countries is the unwillingness of farmers with small plots of land to invest in better seed and fertiliser. Only half of Kenyan farmers buy improved seed or spend money on other inputs. Many use poor-quality seed kept from previous harvests. That is understandable when drought or deluge can destroy their crop, but it has the effect of reducing yields. A new micro-insurance scheme promises to help.

Kilimo Salama, which in Kiswahili means "safe farming", uses a combination of mobile phones and 30 automated solar-powered weather stations to provide crop insurance. It has been set up by UAP Insurance of Kenya, Safaricom, Kenya's biggest mobile-network operator, and the Syngenta Foundation for Sustainable Agriculture, part of a big Swiss agribusiness group. After a successful trial with 200 farmers last year, Kilimo Salama has just been expanded in the hope of attracting 5,000 farmers in western and central Kenya this year.

Farmers pay an extra 5% to insure a bag of seed, fertiliser or other things like herbicide against crop failure. MFA Fertilisers and Syngenta East Africa, two agribusinesses hoping to benefit from higher

sales of their products, match the farmers' investment to meet the full 10% cost of the insurance premium.

The clever bit, however, is the administration. Local agents register a policy with UAP by using a camera-phone to scan a bar code on each bag sold. A text message confirming the policy is then sent to the farmer's handset. Farmers are registered at their nearest weather station, which transmits data over the mobile network. If weather conditions deteriorate, a panel of experts uses an index system to determine if crops will no longer be viable. At that point payouts are made directly to the handsets of farmers in the affected areas using Safaricom's M-PESA mobile-money service.

With no field surveys, no paperwork and no middlemen, transaction costs are minimal. The scheme is designed to be self-financing. And clear terms should help Kilimo Salama overcome farmers' distrust of previous insurance schemes, says James Wambugu of UAP. So should word of mouth. The trial scheme was hit by one of the worst droughts in decades, triggering compensation payments of 80% of farmers' investments. The average amount of insured seed in the area has now risen from 2kg per farmer to 4kg.

could massively reduce transaction costs.

For all this to happen, banking regulations in many countries need to become more flexible about who can accept deposits. Timothy Lyman of CGAP says that regulators are getting more comfortable with the idea of banking agents. India, which initially allowed only very few kinds of agents, last year broadened the categories of those eligible. MFIs are also interested in becoming bank agents, especially in places where they are not legally permitted to take deposits. Cashpor, an Indian MFI working with the Grameen Foundation, intends to use some of the Gates Foundation's money to partner with a savings bank, taking the bank's products to the customers it already has.

If better technology and more flexible regulation are necessary for micro-savings to work, they are still not sufficient. The final step is designing products that work for

poor people. Several MFIs that are getting Gates Foundation money are experimenting with savings accounts that feature commitments to make regular deposits, something many people find attractive. Providers looking to base some lending on deposits also like commitment products, since the money is locked in for some time. Marcia Brown of ACCION International, one of the Gates grantees, says that accounts designated as being for a particular purpose, such as children's school fees, are likely to be part of the product mix.

Sendhil Mullainathan, a Harvard economist, points out that there is often a big gap between what people say they'd like to save and what they end up saving. Saving, he argues, is often "what didn't happen"—the accumulation of decisions not to consume. Consumption, by contrast, is an active decision to buy something. One product he is testing in India involves collaborating with banking agents to sell "savings cards" in shops, so that saving becomes an active purchase and can compete with other impulse buys. With luck these kinds of innovations can help the poor use their own savings to make life just a little more predictable. ■

## Sovereign debt and the euro

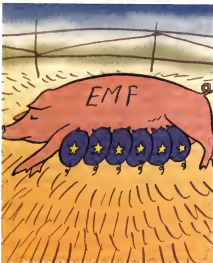
## All for one

## Eurocrats offer up half-baked ideas to prevent a future sovereign-debt scare

NOW that Greece has given in to pressure from its peers for a more austere budget, the euro zone's policy brass suddenly seems more sympathetic towards its most troubled member. On reflection, perhaps the fault with Greece's parlous public finances lay not just with its budgetary profligacy but also elsewhere: in the absence of a central euro-zone authority for helping out cash-strapped countries; or with the credit-rating agencies that had unhelpfully downgraded Greek government bonds; or with the amoral speculators who had bet against those bonds and helped drive up borrowing costs.

It was mildly surprising that some of the messages of support came from Germany, where fiscal indiscipline is least tolerated. On March 7th the finance minister, Wolfgang Schäuble, floated the idea of a European Monetary Fund (EMF) to act as a lender of last resort to euro-zone countries that could not raise funds in capital markets on tolerable terms. He offered few details about how an EMF would be financed or how it would operate. It would not be a "competitor" to the IMF, based in Washington, DC, though it would seek to police the fiscal policies of lax member countries.

Cynics suggested this was a ploy to talk down Greece's borrowing costs—a pledge of concrete action made in the knowledge that agreement on such a body could not be brokered quickly, if at all. The idea was swiftly drenched in cold water. The German chancellor, Angela Merkel, said an EMF could not be set up without a change to the EU treaty, a daunting task. Axel We-



**Correction:** The administrative costs per \$1m lent by the World Bank and the International Development Bank during 2009 were \$20,600 and \$15,314 respectively, not \$19,000 and \$26,833 ("Cap in hand", March 6th). And despite "general consensus", shareholders of the European Bank for Reconstruction and Development do not vote on its capital-increase plan until May. Sorry.



ber, the head of Germany's central bank, dismissed the idea as a "sideshow". The French finance minister, Christine Lagarde, said it was not an "absolute priority".

Progress on such a scheme is always likely to stall because euro-zone countries are reluctant to cede any control of their public finances. That makes agreement on financing a common fund tricky. It also means it is hard to punish countries that run slack fiscal policies. In any case, a safety net big enough to persuade investors that all euro-zone sovereign bonds were safe would leave lax countries with little incentive to control their budgets.

If harmony on a bail-out fund is elusive, ministers have found something on which they can all agree: the dastardly role played in Greece's recent troubles by "speculators". They are accused of buying credit-default swaps (CDSs), a form of insurance against default, in order to drive up Greece's borrowing costs and then to profit from the ensuing panic. France and Germany have echoed calls for a ban on the so-called "naked" trading of sovereign CDSs, where investors do not hold the bonds they have bought insurance on, and asked the European Commission to look into the matter. The possibility that gya-

tions in Greek bond yields could be explained by uncertainty about its public finances is, oddly, ignored.

The rating-agency issue is more grounded in reality. From next year bonds will again only be eligible as collateral at the European Central Bank if they are rated A- or above by at least one of the three big rating firms. If Greece loses its remaining A rating from Moody's, its bonds will be less prized by banks, raising its borrowing costs. But as Mr Weber says, the ECB could choose to lend against lower-rated bonds on more punitive terms. This at least is a real problem with a sensible solution. ■

## Buttonwood Apocalypse, not now

### The alarming future for Japan's finances

CASSANDRA'S curse was that her warnings would never be believed. Doom-mongers in the Japanese government-bond market have suffered a milder fate: they were just far, far too early.

The trade has seemed obvious for years. Japan has run continuous fiscal deficits and seen its debt downgraded by the ratings agencies. With its bonds yielding between 1-2%, the downside risk of a bearish bet has been limited while the upside potential has looked huge.

But the trade has never worked. The Japanese government still enjoys the lowest borrowing costs in the world, with 20-year bonds still yielding just 2.1% and two-year bonds a remarkable 0.15%.

Why? Crucially, Japan has not been dependent on foreigners for finance. Just 4% of its bonds are owned by non-residents. Measly as those yields may be, they are still positive in real terms because of the country's long record of deflation. Given that cash yields virtually nothing, and that the Tokyo stockmarket is around 75% below its 1989 peak, Japanese domestic investors have clearly felt that bonds were the best of a bad lot.

Stephen King, an economist at HSBC, argues that an odd process has occurred in which the size of the deficit has made businesses more cautious about the prospects for a future crisis, leading to slower growth and deflation and thus a continued appetite for government bonds.

But Dylan Grice, a strategist at Société Générale, argues that the moment of reckoning may not be far away. He cites figures showing that ¥213 trillion (\$2.4 trillion) of government bonds are due to roll over this year, equivalent to 45% of the country's GDP. Meanwhile, as more citizens reach retirement age, Japanese households are no longer saving as they once did. As a proportion of disposable



income, savings have declined from around 16% to 3% over the past 25 years. And the Government Pension Investment Fund, one of the biggest holders of government bonds, has admitted that it has no new money with which to buy more debt.

Furthermore, Mr Grice argues that one of the main sources of comfort for investors—that the net debt-to-GDP ratio is a lot lower than the gross figure because of assets owned by the Japanese government—may be an illusion. He doubts the valuations of some of those assets and argues that it is impractical that others could ever be realised.

It certainly seems likely that at some point the worst fears of the bears will come to pass. Debt servicing already uses up some 35% of government revenues. Imagine what that figure would look like if Japan paid the same level of yields as Germany (or worse still, Greece). A fair chunk of Japanese debt is owned by government agencies, a financing pyramid that will eventually collapse. Historically countries with very high levels of government debt

have defaulted or, more usually, inflated the problem away.

The budget deficit is forecast to be 7.8% of GDP this year. The IMF reckons that Japan would need to tighten its structural deficit by 13.4% of GDP between now and 2020 in order to bring its debt-to-GDP ratio down to 80% by 2030. That is a bigger adjustment than would be required of any other country, even allowing for the fact that the IMF set other nations a target debt-to-GDP ratio of 60%.

But given that these problems have been building for 20 years, why would they lead to a crisis now? Fitch, one of the leading rating agencies, places Japan top of the list in terms of financing flexibility. The agency uses factors such as net annual debt issuance (as a proportion of the total), size of the economy, the proportion of debt held by non-residents and the stock of financial assets to determine its rankings. By these measures Greece, Portugal and (more surprisingly) Australia are at the bottom of the table.

And the huge amount of Japanese debt rolling over this year need not be a problem. Investors will simply recycle their existing holdings. Takahira Ogawa, a sovereign analyst at Standard & Poor's, thinks there is more scope for the Bank of Japan to buy government debt, as central banks have done elsewhere.

Of course, such measures just postpone the evil day. The crisis will surely arise when Japan becomes dependent on foreigners for finance, or if a sharp rise in inflation or a sudden slump in the currency causes domestic private investors to take flight. But since the country is still running a current-account surplus, the yen is trading at 90 to the dollar (compared with 124 in June 2007) and deflation is forecast for the rest of the year, the apocalypse seems unlikely to occur in 2010.

## Labour markets

## Distemper

Temporary work may dim future employment prospects

IS ANY job better than no job? Some research has suggested that unemployed workers should take up any job they can get, including temporary work, as a bridge to higher-paying employment. But what may be good for the economy, reducing the drain on government coffers, may be bad for the individuals concerned. In a forthcoming paper in the *American Economic Journal: Applied Economics*, David Autor of the Massachusetts Institute of Technology and Susan Houseman of the W.E. Upjohn Institute for Employment Research in Michigan show that taking up temporary work after a spell of unemployment can hurt future earnings.

The authors looked at data from Detroit's "Work First" welfare-to-work initiative, which uses placement agencies to put low-skilled unemployed people into paid jobs. They then assessed participants' earnings and job tenure before and after their involvement in the programme.

The results revealed huge differences in average outcomes for people placed into temporary work and those placed directly with an employer. Participants who got a full-time job enjoyed, on average, increased job stability and saw annual earnings rise by almost \$2,000 above their previous income two years after taking up their post. Those who were placed into temp work saw their average job tenure decline and their yearly earnings drop by around \$1,000.

An obvious possibility is that better candidates are more likely to get full-time jobs. But "Work First" candidates are assigned to placement agencies on a rotating basis, and these agencies, in turn, have different propensities to put jobseekers into either temporary or full-time work. The assignment of candidates to types of job is, in effect, random.

A better explanation is employment stability. Temporary jobs usually end too quickly to have a durable positive effect on the earnings of participants before, in Mr Autor's words, "the process of unemployment, discouragement, and job search begins anew." Whether the study's findings apply in times of sustained high unemployment, such as now, is less clear. The number of temporary workers in America jumped for the fifth consecutive month in February, even as payrolls fell by 36,000 jobs. Holding out for full-time work is a lot easier when employers are hiring.

## Chinese local-government debt

## Shell game

SHANGHAI

Beijing signals a crackdown on borrowing by local governments

ENDLESS arcane pronouncements spew forth from China's bureaucracies. But some matter much more than others. In recent weeks a number of the country's senior leaders and regulators have signalled an end to the practice of local governments extending guarantees on loans taken out by their special financing entities. That could spell big trouble for Chinese banks.

The comments have focused attention on research done by Victor Shih, a professor of Northwestern University in America, into China's local investment companies. These financing vehicles allow municipalities to circumvent central-government restrictions on direct borrowing. As many as 8,000 of these investment companies may exist, estimates Mr Shih, whose work draws on regulatory filings and various government announcements.

More alarmingly, he reckons that these entities have outstanding debt of 11.4 trillion yuan (\$1.7 trillion), and commitments for a further 12.7 trillion yuan, much of it tied to infrastructure projects designed to stimulate the economy. For comparison, China's heavily publicised national stimulus plan was worth 4 trillion yuan, 1 trillion yuan of which came from the central government. If Mr Shih's estimates are even close to accurate, the scope of China's spending spree is far larger than thought.

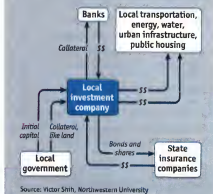
So are the potential consequences. Because loans were issued with guarantees during a period when the national policy was to encourage lending, credit scrutiny by the banks would have been minimal. Mr Shih reckons a quarter of the borrowing already done by local investment companies will go bad. The loss of municipal guarantees would shift this credit exposure from governments to lenders. If land used to collateralise much of their borrowing falls in value or is laid claim to by several lenders, that would probably prompt at least some financial entities to fail.

To some extent, this shuffling of debt is a bit of an accounting shell game, says Michael Kurtz, head of China research for Macquarie Securities, an investment bank. Regardless of whether the loans are the responsibility of local entities or banks, they are ultimately—in a state-run system—obligations of the central government.

But in other ways a shift would have real meaning. It could provide a better sense of just how precarious China's finances may be. It also raises the prospect that Chinese banks, which statistically ap-

## Borrowed time

How Chinese local-government investment companies work



Source: Victor Shih, Northwestern University

pear quite strong, may need even more capital than many had anticipated.

And even if the bears are wrong, an end to guarantees would mark a transfer in authority for who can raise and allocate credit from local to national authorities. In recent years Beijing has turned a blind eye as municipal governments created structures to avoid laws limiting their financial flexibility. A decision has apparently been made that such freedom has gone too far.

Precisely how the municipally sponsored financing entities work is only dimly understood, despite Mr Shih's efforts (see chart). Some of their ongoing funding is apparently tied to land sales: moving away from local approvals could pre-empt corrupt deals between local officials and developers and contractors. Reining in municipalities' investment companies might therefore win some local applause. But the clean-up could be very ugly. ■

## Spanish banks

## All talk, no walk

MADRID

A financial system in suspense

THAT old Spanish stereotype of putting things off until *mañana* still applies today. For nearly two years bankers have been talking about the need to restructure a bloated financial system, particularly the country's 45 unlisted savings banks, the *cajas de ahorros*. About half of the *cajas*, which are controlled by local politicians, have announced their intention to merge, hoping to tap into the €99 billion (\$135 billion) Fund for Orderly Bank Restructuring (FROB), which was created in June.

Regional politicians, reluctant to give away their piggy banks, are prepared to sanction some internal mergers. Catalo- ▶▶

nia, for example, has allowed some consolidation, as has Andalusia. Progress is slower elsewhere. Caixanova, a savings bank in Galicia, is resisting a union with Caixa Galicia, a rival. The sector has also been waiting for Spain's second-largest savings bank, Caja Madrid, to make a move. Until recently, it was paralysed by a political power struggle at the top.

In truth, there has not been much incentive until now for the Spanish banking system to address its exposure to the country's spectacular property bust. Despite a rise in bad loans, banks have remained solidly profitable throughout the crisis. A generous cushion of "generic provisions", reserves stored up in the boom times, has helped. FROM capital isn't cheap, either, which may also have encouraged delay. But the day of reckoning is drawing closer.

On the liabilities side of the balance-sheet, the cost of funding is expected to increase as the European Central Bank (ECB) gradually winds down its special liquidity schemes. Spanish borrowing from the ECB has shot up dramatically over the course of the crisis: the country's banks account for 14% of ECB funding, roughly in line with their weight by assets in the euro-zone financial system. Replacing ECB funds will hurt the *cajas* more, since they have done about three-quarters of the borrowing, according to Bank of America Merrill Lynch. Worries over Spain's sovereign creditworthiness will also put pressure on the cost of bank funding this year.

Bad loans will rise further. Banks have masked their worst bets by acquiring €30 billion-40 billion of properties from distressed housebuilders before the loans went bad. *Cajas* have been especially active in swapping debt for property, according to Iberian Equities, a broker. The Bank of Spain requires banks to set aside 10% of the property value upfront, and another 10% if it hasn't been sold after a year. Given the continuing slump in the market, the central bank is now expected to raise provisions to 30%. Spain's two biggest banks, Santander and BBVA, have already set aside at least that amount. But for the *cajas*, the increased provisions could eat up a third of their pre-provision profits in 2010, according to Iberian Equities.

An even bigger potential problem is lending that the banks have chosen to roll over on the assumption that loans will eventually be repaid. Analysts at Credit Suisse estimate that banks have refinanced about €60 billion in such loans. They reckon banks will eventually have to set aside nearly €30 billion in provisions for these loans and acquired properties, or another 50% or so of what has been put aside so far. Generic provisions will not help: many banks will exhaust them this year.

How bad things get largely depends on how long Spain's unemployment rate hovers near 20%. The governor of the Bank of

Spain, Miguel Angel Fernández Ordóñez, is fixated on the need to reform the labour market. If the unemployment rate remains high, he said in a recent speech, bank restructuring will be a much bigger task than the one currently on the cards.

All of which suggests the *cajas* cannot put things off for much longer. The FROM fund expires in June of this year, but the deadline is expected to be extended. Better *mañana* than never. ■

#### MetLife buys Alico

## Snoopy sniffs an opportunity

NEW YORK

**AIG reluctantly hands its crown as America's global life insurer to MetLife**

ANOTHER week, another opportunity for AIG's rivals to expand at the American insurer's expense. Days after sealing a \$35.5 billion deal for its Asian life-insurance operations with Britain's Prudential, the firm, which is being dismembered to recoup bail-out costs, agreed on March 8th to sell another crown jewel, Alico. This will propel New York-based MetLife, which is paying \$15.5 billion, into the industry's global elite. Although it is the biggest life insurer in America, where its Snoopy mascot is ubiquitous, it has been tentative abroad. Alico will give it a presence in 64 countries, up from 17 now, taking its non-American revenue from 15% of the total to 40%.

The biggest leap will be in Japan, the world's second-largest life market, in which Alico is a top-tier competitor. But MetLife's boss, Robert Henrikson (who took over in 2006 from Robert Benmosche, now AIG's chief executive), also has his eye on the faster-growing markets in eastern Europe, the Middle East and Latin America that make up almost a quarter of Alico's business. Another attraction is its distribution network: 60,000 agents, brokers and other local middlemen.

MetLife was well placed to grab Alico, having emerged from the financial crisis bruised but far from broken, with a solid investment-grade credit rating. The firm raised private capital as opportunities arose, avoiding the need to take public money when markets froze.

Its new focus on foreign markets is understandable. Domestic premiums are stabilising, after plummeting during the turmoil. American life insurers returned to profit last year after recording a thumping loss of \$52 billion in 2008 (on a statutory-accounting basis). But A.M. Best, a rating agency that specialises in insurance, has a negative outlook on the sector. Among the agency's concerns are economic weakness, tighter federal regulation (insurers are currently overseen by states) and the public's loss of faith in retirement products. A survey undertaken by LIMRA, an industry group, in October found that only 18% of Americans had "strong" confidence in insurers.

Logical though it is, foreign expansion carries risks for MetLife. Moody's, a rating agency, responded to the deal by cutting its outlook on the insurer to negative, citing "execution risks" and heightened pressure on cashflow due to increased debt issuance. Analysts worry that MetLife will be less adept at navigating local regulatory regimes than AIG, whose ability to negotiate sweetheart deals in tricky markets was legendary. In Japan, the acquisition is a gamble on the continued growth of medical insurance as the population ages, even as other Western firms strengthen their foothold there. Another potential problem is Alico's investment portfolio, with its substantial exposure to dicey sovereign debt (Greek and Polish bonds) and property (all manner of mortgage-backed securities).

Thanks to AIG's woes, MetLife has been able to pick up a solid, diverse franchise that would have taken many years to replicate organically. But in insurance, as in banking, most mergers end up flopping, says Andrew Edelsberg of A.M. Best. Snoopy's tail may be wagging, but it is not yet time to dole out the treats. ■



Goggles on, ears back

# Economics focus | The inflation solution

The merits of inflation as a solution to the rich world's problems are easily overstated

IT HAS long been considered a scourge, an obstacle to investment and a tax on the thrifty. It seems strange, then, that inflation is now touted as a solution to the rich world's economic troubles. At first sight the case seems compelling. If central banks had a higher target for inflation, that would allow for bigger cuts in real interest rates in a recession. Faster inflation makes it easier to restore cost-competitiveness in depressed industries and regions. And it would help reduce the private and public debt burdens that weigh on the rich world's economies. In practice, however, allowing prices to rise more quickly has costs as well as benefits.

The orthodoxy on inflation is certainly shifting. A recent IMF paper\* co-authored by the fund's chief economist suggests that very low inflation may do more harm than good. Empirical research is far clearer about the harmful effects on output once inflation is in double digits. So a 4% inflation target might be better than a goal of 2% as it would allow for monetary policy to respond more aggressively to economic "shocks". If the expected inflation rate rose by a notch or two, wages and interest rates would shift up to match it. The higher rates required in normal times would create the space for bigger cuts during slumps.

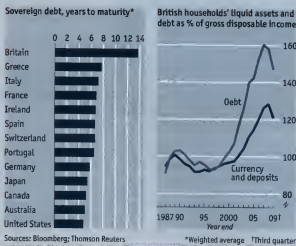
That argument is often bundled with another: that higher inflation greases the wheels of the economy. Wages should ideally be tied to productivity, but workers are usually reluctant to suffer the pay cuts that are sometimes required to maintain that link. A higher inflation rate can make it easier for relative wages to adjust. A cut in real wages is easier to disguise with inflation of 3-4% than a rate of 1-2%. If the European Central Bank (ECB) had a higher inflation target, say, then Greece, Ireland and Spain would be able to regain competitiveness more quickly while avoiding unpopular cuts in nominal wages.

The anxiety about indebtedness makes inflation seem all the more appealing. Spending in rich countries, such as America and Britain, will flounder as long as households look to pay down the debts they acquired to buy expensive homes. A burst of inflation would speed up this process by eroding the real value of mortgages. Inflation would work the same magic on government debt. It could also give a fillip to revenues. Tax allowances and thresholds are not perfectly indexed and inflation pushes taxpayers into higher income brackets where they face heavier tax rates.

In principle a modest dose of controlled inflation might work wonders. In practice, however, it may be hard to achieve and the benefits may not be quite as obvious. Take public debt. Inflation certainly helped reduce America's government-debt burden after the second world war, but far more of the shrinkage came from strong GDP growth and primary budget surpluses. George Hall of Brandeis University and Thomas Sargent of New York University reckon that less than a quarter of the reduction in America's debt-to-GDP ratio between 1945 and 1974 came from negative real rates of return on government bonds.

The Hall-Sargent calculations show that almost all of this inflation tax was borne by those who held bonds with a maturity of five years or more. (That is because investors in short-term bonds could more quickly demand higher interest rates to compensate for inflation.) The trick is harder to repeat today. The average maturity of federal debt was more than seven years in the

## Drop the helicopters



1940s. According to Bloomberg, the weighted average maturity of all American public debt is now around five years. Using inflation to stiff investors works best when the bulk of borrowing is in the past: governments have an incentive to keep inflation (and thus bond yields) low as long as they are issuing fresh bonds to cover their huge budget deficits.

Another obstacle to higher inflation is that rich countries have promised themselves price stability. A central bank could not credibly commit itself to a 4% inflation target having broken a pledge to keep inflation close to 2%. Bond investors would demand an interest-rate premium for bearing the risks of a future increase in the target, as well as an extra reward for enduring more variable returns (higher inflation tends to be more volatile). Moreover, many social-security and health-care entitlements are indexed to prices, as is a chunk of public debt, so higher inflation would drive up public spending.

## Soak the pensioners

For the private sector, too, inflation would be a mixed blessing. Take Britain, which might seem a likely candidate for inflation: its government sets the central bank's inflation target and it has issued lots of long-term bonds (see left-hand chart). Alongside a rapid build-up of debt by some households there has been an increase in cash deposits by others (see right-hand chart). Using inflation to transfer wealth from savers to debtors may help boost spending. But there are limits to how much you can do this in a country such as Britain (or Ireland or Spain), where both saving and mortgages are linked to short-term interest rates. Inflation would over time reduce the real burden of debt but would raise interest costs more quickly. Nor would it be politically popular: savers tend to be older and the old vote more often.

A burst of unanticipated inflation that was not expected to last would be a salve to the most troubled rich economies, but it is not something that can be easily engineered. Even so, how much regret would even the most hawkish central banker feel if inflation rose above 2% for a while without making bond investors nervous? The best policy may well be to talk tough about inflation while keeping interest rates low for as long as possible. ■

\* "Rethinking Macroeconomic Policy" by Olivier Blanchard, Giovanni Dell'Ariccia and Paolo Mauro, IMF Staff Position Note (February 12th 2010).

† "Interest Rate Risk and Other Determinants of Post-WWII US Government Debt/GDP Dynamics." NBER Working Paper No. 15702 (January 2010).





## Metabolic syndrome

## A game of consequences?

One of the scourges of modern life may have been profoundly misunderstood

**B**EING fat is bad for you. On that, almost everyone agrees. It is just possible, though, that almost everyone is wrong. In fact, getting fat may be a mechanism that protects the body. The health problems associated with fatness may not be caused by it but be another consequence, another symptom, of overeating.

That is the heretical proposal of Roger Unger and Philipp Scherer. Dr Unger and Dr Scherer, who work at the University of Texas, in Dallas, have been reviewing the science of what has come to be known as metabolic syndrome. This is a cluster of symptoms such as high blood pressure, insulin resistance and fatness that seem to increase the risk of heart disease and strokes, late-onset diabetes and liver disease. Metabolic syndrome is found in a sixth of the American population.

"Syndrome" is the medical term for a collection of symptoms whose common cause is not properly understood. The symptom of metabolic syndrome that appears first is usually obesity, so this is generally regarded as the underlying cause.

Dr Unger and Dr Scherer, however, turn this logic on its head. They point out that there is usually a period of many years between a person becoming overweight and his developing the other symptoms. If the growth of adipose tissue (the body cells in which fat is stored) were directly harmful, that would not be the case. This is one of the lines of evidence that has led them to the conclusion that, in addition to its role in

storing energy as a hedge against future famine, getting fat is a protective mechanism against metabolic syndrome.

Their thesis is that lipids (the group of molecules that includes fats), which are needed in small amounts to make cell membranes, are toxic in larger quantities. Absorbing them into adipose tissue is one of the body's ways of dealing with that toxicity. But are lipids toxic? In one sense, it is obvious that they are. The build up of fatty plaques in blood vessels, which results in atherosclerosis, is a result of the inability of the cells lining the walls of these vessels to cope with too much fat.

## Fat, and proud of it

More subtly, though, the two researchers have dug up evidence that an excess of lipids damages heart-muscle cells, and even destroys pancreatic cells in rodents. This could help explain the fact that the form of diabetes that follows metabolic syndrome can involve damage to pancreatic cells.

It is generally thought that the growth of adipose tissue causes cells in the liver, muscle and fat tissue to become resistant to insulin (a hormone produced in the pancreas) and thus unable to absorb glucose from the blood. How this happens has been the subject of a lot of hand waving, though the tendency of adipose tissue to produce chemicals that encourage inflammation is often mentioned.

Dr Unger and Dr Scherer attack this whole notion. In a paper in *Trends in Endo-*

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crinology and Metabolism they argue that insulin resistance is another side-effect of metabolic syndrome whose cause is lipid molecules poisoning tissues in which they are not supposed to be present in large quantities. The problem of lipid damage, they believe, is linked to hormones produced not by the pancreas, but by adipose tissue itself. These hormones are called leptin and adiponectin.

Leptin has several roles, but one is to encourage cells to oxidise lipids and thus destroy them. For example, in the cases of the heart-muscle cells and pancreatic cells mentioned above, dosing them with leptin keeps them healthy. Adiponectin, meanwhile, encourages the body's adipose tissue to absorb lipids.

As adipose tissue grows, however, its production of adiponectin falls. The ability of the tissue to absorb lipids and keep the rest of the body safe thus drops. Leptin production, meanwhile, grows along with the mass of the adipose tissue. In what is, admittedly, the least-tested part of their thesis, Dr Unger and Dr Scherer argue that other cells react to this increase in leptin concentration by becoming resistant to the hormone's effects. That, in turn, stops them oxidising lipids and opens those cells to lipids' toxic effects.

Dr Unger and Dr Scherer suggest that this failure of the leptin mechanism, particularly its role in oxidising lipids, is crucial to the development of metabolic syndrome, and that it is a pathology of adipose tissue that has become overloaded.

In light of all this, they suggest that insulin resistance, like obesity, should be viewed not as a pathology but as an adaptive response by the body to an excess of circulating lipids. To save themselves when they are threatened with being overwhelmed by lipids, cells become insulin-resistant, which stops them taking up extra glucose which would then be converted ▶

into lipids.

In support of this hypothesis, the researchers point to studies on mice whose leptin receptors have been broken by genetic mutations. In a healthy mouse (one with working leptin receptors) even a diet that is 60% fat does not cause a build-up of lipids anywhere except in the adipose tissue. In one with broken receptors, a mere 6% is enough to overload other tissues to the point where lipids would be toxic. Such experiments cannot, of course, be done on people, but something similar occurs naturally. A few unfortunates are born without adipose tissue. These people rapidly develop the symptoms of metabolic syndrome.

Sadly for self-indulgent humans, none of this affects the basic message about staying healthy, which remains to eat less and exercise more. It does, though, raise important questions about how metabolic syndrome is treated. The focus that many doctors have on controlling diabetes may be mistaken, possibly counterproductive, if insulin resistance is actually a protective mechanism. Even if it is not, the destruction of pancreatic cells that comes with diabetes may be unrelated to the development of insulin resistance. And liposuction (not, admittedly, something that most doctors would recommend) would be expected to make things worse, since it would get rid of the source of the hormones that regulate lipids.

Dr Unger and Dr Scherer, then, have attempted to apply some new thinking to a disease that affects more people as the world gets richer. Even if they are wrong, a little lateral thinking may help shake up the field. If they are right, a lot of people may thank them in the future. ■

#### Analysing the web

## Blog mining

#### Scouring blogs for useful information

**"I** NOTICED that the doormat was at a slightly crooked angle. I reached down and moved the mat back into its correct place." Thus began a recent entry on *The dullest blog in the world*. Although this publication is something of a satire on the internet's inanely blogs, scientists are finding to their surprise—that useful information can actually be mined from the tedium of the blogosphere.

Andrew Gordon and his colleagues at the University of Southern California's Institute for Creative Technologies in Los Angeles have been trying to teach computers about cause and effect. Computers are not

good at dealing with causality. They can identify particular events but working out relationships is more difficult. This is particularly true when it comes to using computers to analyse the human experience.

But it turns out that computers can learn a lot about causality by reading personal blogs. Of the million or so blog entries that are written in English every day, most are comments on news, plans for activities, or personal thoughts about life. Roughly 5% are narratives telling stories about events that have recently happened to the author.

To enable their computer system to learn from blogs, the team followed a two-step process. The first step was for humans to flag thousands of blog entries as either "story" or "not story". People use different words with different frequencies when they are telling stories, as compared with other forms of discourse. By tallying up the frequencies of parts of speech such as pronouns (I, she, we) and past-tense verbs (went, said, thought) in these flagged blogs, it is possible to distinguish between the two types—regardless of what the story is actually about, says Dr Gordon. His computer system could then look at other blog entries and work out whether they were narrative or not.

The second step was to teach the system to identify causal connections. Here the team used much the same technique. Dr Gordon and his students read thousands of random blog entries and specifically pointed out phrasing associated with causal relationships (such as "I did X so then Y happened") for the computer to pick up on. Identifying such phrases in blog entries then enables the computer to pick out and categorise those sentences that contain a cause and an effect, such as "I slammed on the brakes but ended up smashing into the car in front of me" or "The doctor scolded me for eating too much fat and risking a heart condition."

The idea is that this will eventually lead to a system that can gather aggregated statistics on a day-by-day basis about the personal lives of large populations—information that would be impossible to garner from any other source. Ultimately, Dr Gordon expects the analysis of personal stories in weblogs to be used much like Google's flu tracker, but on a much grander scale. Google's flu-tracking scheme can detect early signs of influenza outbreaks by mining search data for flurries of flu-related search terms in a particular region.

The web could be mined to track information about emerging trends and behaviours, covering everything from drug use or racial tension to interest in films or new products. The nature of blogging means that people are quick to comment on events in their daily lives. Mining this sort of information might therefore also reveal information about exactly how ideas are

spread and trends are set.

In the world before the web, chatter about the trivialities of everyday life was shared in person, and not written down, so it could not be subjected to such analysis. While recording their words for posterity and obsessively checking their hit counters to see if anyone is reading them, today's blog authors can console themselves with the thought that computers, at least, find their work fascinating. ■



#### Advances in pain relief

## Agony column

**Body, mind and genes all play a role in influencing the perception of pain**

**P**AIN, unfortunately, is a horrible necessity of life. It protects people by alerting them to things that might injure them. But some long-term pain has nothing to do with any obvious injury. One estimate suggests that one in six adults suffer from a "chronic pain" condition.

Steve McMahon, a pain researcher at King's College, London, says that if skin is damaged, for instance with a hot iron, an area of sensitivity develops around the outside of the burn where although untouched and undamaged by the iron the behaviour of the nerve fibres is disrupted. As a result, heightened sensitivity and abnormal pain sensations occur in the surrounding skin. Chronic pain, he says, may similarly be caused not by damage to the body, but because weak pain signals become amplified.

This would also help explain why chronic pains such as lower-back pain and ▶▶

# The Economist

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► osteoarthritis fail to respond well to traditional pain therapies. But now an entirely new kind of drug, called Tanezumab, has been developed. It is an antibody for a protein called nerve growth factor (NGF), which is vital for new nerve growth during development. NGF, it turns out, is also crucial in the regulation of the sensitisation of pain in chronic conditions.

Kenneth Verbung, one of the researchers involved in the development of Tanezumab at Pfizer, says it is not exactly clear what role NGF plays in normal physiology, but after an injury which involves tissue damage and inflammation, levels of NGF increase dramatically. NGF seems to be involved in transmitting the pain signal. As a consequence, blocking NGF reduces chronic pain.

Tanezumab must still complete the final stages of clinical trials before it can become a weapon in the toolkit for reducing human suffering. But unexpected pains do not always come from the body. According to Irene Tracey, a pain researcher at the University of Oxford, how pain is experienced also depends upon a person's state of mind. If successive patients suffer the same burn, the extent to which it hurts will depend on whether one is anxious, depressed, happy or distracted.

Such ideas are being explored with brain scans which suggest that even if a low level of pain is being sent to the brain, the signal can be turned up by the "mind" itself. Indeed, patients can even be tricked into feeling pain.

In one experiment volunteers were given a powerful analgesic and subjected to a painful stimulus—which, because of the analgesic, they could not feel. Then they were told the drug had worn off (although it had not), and subsequently complained that the stimulus hurt.

People can, therefore, feel pain simply because it is expected. They can fail to feel pain for exactly the same reasons, for example when they are given placebos or are distracted. But although pain may be subjective, that does not mean the final experience is controlled solely by the mind.

A recent paper in *Proceedings of the National Academy of Sciences* has shown that genes play a role in determining sensitivity to pain. One gene, known as *SCN9A*, codes for a protein that allows the channels along which nerve signals are transmitted to remain active for longer and thus transmit more pain signals. It seems likely that this protein will attract a great deal more analgesic research. Variations in *SCN9A* may also explain why some patients prefer different classes of painkillers.

Although pain may be a horrible necessity, there is no doubt that humanity could cope with far less of the chronic sort. Understanding how the mind, the body and people's genes interact to cause pain should bring more relief. ■

## Connecting to the brain

# Thinking about it

## Advances in brain-to-machine connections

THE possibility of operating a machine using thought control has long fascinated researchers. It would be the ultimate video-game controller, for one thing. On a more practical level, it would help disabled and paralysed people use computers, artificial limbs, motorised wheelchairs or robots. New developments in brain-to-machine interfaces show that such possibilities are getting closer.

For many years it has been possible for people to manipulate relatively simple devices—such as a computer's on-screen cursor—by thinking about moving them. One way is by implanting electrodes into the brain to measure the electrical activity associated with certain movements. Another uses electroencephalography (EEG), which detects the same activity using electrodes placed on the scalp. In both cases, a computer learns to associate particular brain signals with intended actions.

The trouble is that non-invasive methods, which obviously have far broader ap-

peal, are less precise than using implanted electrodes, which produce a clearer signal. Recent advances in sensors and signal processing, however, have helped close the gap, making the EEG-based approach more accurate and easier to learn how to use.

In one of the latest studies, José Contreras-Vidal and his colleagues at the University of Maryland were able to obtain enough EEG data from volunteer button pushers to reconstruct the associated hand motions in three dimensions. For their study, reported in the *Journal of Neuroscience*, the researchers put something that looks like a swimming cap containing 34 EEG sensors on the heads of five people. The volunteers were asked to press eight buttons randomly as their brain's electrical signals were recorded, along with their hand movements. When the volunteers were then asked to think about pressing one of the eight buttons, the resulting EEG data could be compared with the data produced during actual button-pushing, and the computer could determine which button they had in mind.

The team found that sensors next to some parts of the brain produced better results than others. A sensor over the primary sensorimotor cortex, a region of the brain associated with voluntary movement, was the most accurate. Other useful signals came from the inferior parietal lobe, an area of the brain known to help guide the movement of limbs. Such knowledge means EEG headsets can be made with just a few sensors for a particular application, making them smaller and less obtrusive, says Dr Contreras-Vidal.

At the CEBIT trade fair in Hannover earlier this month, participants wearing EEG caps played pinball using mind control. At first the players needed to think about moving their left or right hands to operate the appropriate paddle. But eventually the process becomes subconscious, says Klaus-Robert Müller of the Berlin Institute of Technology, who is the leader of another group investigating brain-to-machine connections. It is then possible to move the flippers without thinking about moving one's hand, he says.

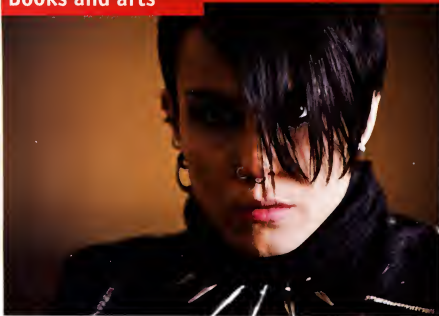
The researchers hope that the development of portable and non-invasive brain-machine control will be a useful advance for the paralysed or wheelchair-bound. Still, some 30% of people seem to struggle with the technology, says Dr Müller. But with new training techniques and research he thinks they will be able to cope.

Perhaps they need to relax more. If so, Dr Müller has a prototype device which looks like a headband and measures a person's state of relaxation. It also has a wireless connection. It is only a matter of time before such a device is used to create the killer application in human-computer interactions: a way of stopping people from sending e-mails while angry. ■



Should've bought a Wii





## Scandinavian crime fiction

## Inspector Norse

## Why are Nordic detective novels so successful?

THE neat streets of Oslo are not a natural setting for crime fiction. Nor, with its cows and country smells, is the flat farming land of Sweden's southern tip. And Reykjavik, Iceland's capital, is now associated more with financial misjudgment than gruesome murder. Yet in the past decade Nordic crime writers have unleashed a wave of detective fiction that is right up there with the work of Dashiell Hammett, Patricia Highsmith, Elmore Leonard and the other crime greats. Nordic crime today is a publishing phenomenon. Stieg Larsson's Millennium trilogy alone has sold 27m copies, its publishers' latest figures show, in over 40 countries. The release this month in Britain and America of "The Girl with the Dragon Tattoo", the film of the first Larsson book, will only boost sales.

The transfer to the screen of his sprawling epic (the author died suddenly in 2004 just as the trilogy was being edited and translated) will cement the Nordics' renown. The more unruly subplots have been eliminated, leaving the hero, a middle-aged financial journalist named Mikael Blomkvist (Michael Nyqvist), and an emotionally damaged computer hacker, Lisbeth Salander (Noomi Rapace, pictured above), at the centre of every scene. The small screen too has had a recent visit from the Swedish police. Starting in 2008, British television viewers have been treated to expensive adaptations of the books of Henning Mankell, featuring

Kenneth Branagh as Kurt Wallander. The BBC series has reawakened interest in Mr Mankell's nine Wallander books, which make up a large slice of his worldwide sales of 30m in 40 languages.

Larsson and Mr Mankell are the best-known Nordic crime writers outside the region. But several others are also beginning to gain recognition abroad, including K.O. Dahl and Karin Fossum from Norway and Ake Edwardson and Hakan Nesser of Sweden. Iceland, a Nordic country that is not strictly part of Scandinavia, boasts an award winner too. Arnaldur Indridason's "Silence of the Grave" won the British Crime Writers' Association Gold Dagger award in 2005. "The Devil's Star" by a Norwegian, Jo Nesbo, is published in America this month at the same time as a more recent novel, "The Snowman", is coming out in Britain. A previous work, "Nemesis", was nominated for the prestigious Edgar Allan Poe crime-writing award, a prize generally dominated by American authors.

Three factors underpin the success of Nordic crime fiction: language, heroes and setting. Niclas Salomonsson, a literary agent who represents almost all the up and coming Scandinavian crime writers, reckons it is the style of the books, "realistic, simple and precise...and stripped of unnecessary words", that has a lot to do with it. The plain, direct writing, devoid of metaphor, suits the genre well.

The Nordic detective is often careworn

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and rumpled. Mr Mankell's Wallander is gloomy, troubled and ambivalent about his father. Mr Indridason's Inspector Erlendur lives alone after a failed marriage, haunted by the death of his younger brother many years before in a blizzard that he survived. Mr Nesbo's leading man, Inspector Harry Hole—often horribly drunk—is defiant of his superiors yet loyal to his favoured colleagues.

Most important is the setting. The countries that the Nordic writers call home are prosperous and organised, a "soft society" according to Mr Nesbo. But the protection offered by a cradle-to-grave welfare system hides a dark underside. As Mary Evans points out in her recent study, "The Imagination of Evil", the best Scandinavian fiction mines the seam that connects the insiders—the rich and powerful—and the outsiders, represented by the poor, the exploited and the vulnerable. Larsson is a master at depicting the relationship between business, social hypocrisy and criminal behaviour, and his heroes do not want to be rescued through any form of conventional state intervention.

Analysing Scandinavia and its psyche is nothing new; Henrik Ibsen did it over a century ago. But the greatest influence on these rising writers has been Per Wahloo and Maj Sjöwall, a Swedish couple. Journalists and committed Marxists, they co-authored the ten-volume Martin Beck series between 1965 and 1975 with the aim of criticising the country's welfare state. The central character is a likeable and dedicated policeman with a dry sense of humour. But the books, which closely study police procedure, feature an ensemble of his colleagues, all believable characters drawn with the lightest of touches. By turn entertaining and funny examinations of the day-to-day work of policemen, they are also gripping and complex thrillers. ▶▶

▶ The quality and popularity of crime fiction has given Nordic novelists a prestige that authors from other countries do not enjoy. This, in turn, has drawn in new writers. The next potential blockbuster could well be Leif G.W. Persson's "Fall of the Welfare State"—though a more enticing title is planned for its English-language debut. First published in Sweden in 2002, it is written by a professor of criminology who has been involved in many of Sweden's high-profile crime cases and is an epic and ambitious tale spanning several decades of Swedish history.

The cold, dark climate, where doors are bolted and curtains drawn, provides a perfect setting for crime writing. The nights are long, the liquor hard, the people, according to Mr Nesbo, "brought up to hide their feelings" and hold on to their secrets. If you are driving through Norway at dusk and see a farmhouse with its lights on and its doors open, do not stop, he warns, only half jokingly. You are as likely to be greeted by a crime scene as a warm welcome. ■

#### The proliferation business

## Unstoppable?

**Peddling Peril: How the Secret Nuclear Trade Arms America's Enemies.** By David Albright. Free Press; 304 pages; \$27

EVER since the atom was split, governments have struggled to control a force with potential for good that can also wreak awful destruction. Some argue it is impossible to stop technologies that can keep the lights on from being used to make bombs. That is a sobering thought in a world ready to re-embrace relatively carbon-free nuclear power. But David Albright, a respected chronicler of undercover nuclear shenanigans, tells a more alarming story: just how little most governments have done to halt the bomb's spread.

In the 1960s John Kennedy fretted that without a test ban and other hurdles, eventually a score of countries could have their finger on a nuclear trigger. So far, the tally of serious nuclear dabblers, past and present, stands at about 30. Only ten have succeeded, but some are still trying.

After America, Russia, Britain, France and China, recognised as nuclear powers by the Nuclear Non-Proliferation Treaty (NPT) because they had already tested their bombs, came India and Pakistan, which like North Korea boast of their prowess. Israel is coy. Most successfully secretive was South Africa. It stunned the world in 1993, announcing it had covertly built six nuclear devices and then dismantled them. Others thought better of it, had arms

New fiction: Ian McEwan

## Mr Sunshine

**Solar.** By Ian McEwan. Nan A. Talese; 304 pages; \$26.95. Jonathan Cape; £18.99

IN HIS mid-50s Ian McEwan made a conscious move to distance himself from his fellow British novelists, Martin Amis, Julian Barnes and Salman Rushdie, with a series of "state of the nation" novels that self-consciously brought together current affairs, science, morality and sex. The first, "Saturday", dwelt on the war with Iraq; in his new novel, "Solar", the focus is global warming.

The hero of "Solar", Michael Beard, a Nobel-prize-winning scientist, also in his mid-50s when the book opens, is in the same state of decay as planet Earth. Four of his marriages have already failed. His chronic infidelity has led to open warfare with his fifth wife—a conflict he is about to lose, in part because he has grown so bloated he can no longer see his own genitalia unless his head is propped up on two pillows, and also because she has embarked on some infidelity of her own, first with the couple's builder and then with one of Beard's research students.

Beard, no surprise here, hasn't done any decent science for years. The Nobel laureate is in demand only from organisations "in need of a mortal sprinkled with Stockholm's magic dust". Having made such a mess of his own life, suddenly he is offered the chance to save the world from environmental disaster.

In the course of this reincarnation story, Beard manages to have his wife's research student lover slip on a polar-bear rug, hit his head and die. He then succeeds in sticking Mrs Beard's builder boyfriend with a murder charge. Beard himself has to quit the worthy scientific institute he chairs, and he joins the world of techno start-ups. His new girlfriend, a sensual woman on the wrong side of 40

but of independent means, announces she is pregnant.

Beard, who has so far avoided fatherhood, does not take kindly to this news. Eventually, like many men, he is co-opted by his daughter to sing the first few verses of "Ten Green Bottles", the only song to which he knows all the words. Then the framed builder gets out of jail, and Beard's world comes tumbling down.

There are several things to be said about Mr McEwan's latest work. The first is that it is a comedy, which is a surprise, given the darkness of some of his writing in the past; the second is that it is not very good. There are some superbly crafted scenes—Beard putting on his snowsuit on his way to the North Pole, Beard stealing a packet of crisps—all of which will please those who believe Mr McEwan is best at writing short fiction. But these are riffs rather than an entire concerto. Overall, the plot is barely credible and the scientific setting hard to recognise. A novel to chuckle over, and chuck away.



twisted by America or, like Iraq and Libya, were caught radioactive-handed.

Yet others cheat on. Iran and Syria, though members of the NPT, are stonewalling inspectors from the International Atomic Energy Agency, the UN's nuclear guardian, over mounting evidence of clandestine nuclear work. Secretive Myanmar may also be up to no nuclear good.

Mr Albright explains how such latecomers got their start in the nuclear business. This was often, though not always, with designs and materials supplied by the global nuclear smuggling network run by Abdul Qadeer Khan, a Pakistani former

nuclear scientist. Plans for a uranium-enrichment plant in Libya were so detailed they had instructions for where to put toilet-paper holders in the bathrooms.

But the book's real value is in pulling two clear threads from the facts and speculation. One is that commerce almost always trumps proliferation concerns, and not just among Mr Khan's band of merry smugglers. Profits can be huge and catching traffickers hard. In Germany and Switzerland, where sales of precision machine tools, valves and much else of nuclear use were a source of national pride, export licences used to be waved through. But Mr ▶

Albright also tells the story of a German company, Leybold AG, previously up to its armpits in dodgy dealings, that chose instead to turn market leader in spotting attempts to smuggle parts for weapons even when cleverly disguised as orders for innocent-seeming widgets. It can be done.

The other thread is China. Despite a raft of laws and sporadic enforcement, its ports and companies are still key links in the illicit export/import chains of North Korea, Iran and others. What is more, in the early 1980s China gave Pakistan a pre-tested design of a missile-mountable warhead.

This single wanton act probably did the most to undermine the global non-proliferation regime. Mr Khan later sold the design (this network also had more sophisticated ones) to Libya, very likely Iran and North Korea, and possibly others. China's leaders have also held out longest over tougher sanctions on Iran, whose nuclear programme has benefited from their past irresponsibility. ■

#### American power

## Empire state

#### Dominion from Sea to Sea: Pacific

*Ascendancy and American Power.* By Bruce Cumings. Yale University Press; 641 pages; \$38 and £30

AMERICA'S dominant Atlanticist idea, a free trade and an Anglo-American internationalist outlook, emerged out of cold-war necessities, owing more to NATO than to Plato, as Bruce Cumings puts it. For much of the preceding three centuries, America nurtured its sense of exceptionalism by turning away from European monarchy, conflict and class. And not just turning away: turning West. Across a vast continent a "westering" people established the *novus ordo seclorum* that is on every dollar bill.

The story of America's rapid unravelling of the exceptionalist carpet is very well told by Mr Cumings, professor of history at the University of Chicago. The huge genocidal land grabs—from Mexico and from Indian tribes—were cloaked in self-righteousness. The new lands were handed back their virginity. Frederick Jackson Turner, admiring historian of Manifest Destiny, called them "a fair, blank page".

The emerging frontier, everyone agreed, was an Eden. But the machine quickly moved into the garden with the railway, the world-shrinking telegraph, grid-straight roads, farm boundaries and industrialised agriculture. California, grabbed from Mexico by that imperialist president, James Polk, was different from

the start. This is where the West really began, when gold was found in 1848.

The discovery marked the first of many chain-reaction explosions that have hurtled California forward since. Mr Cumings writes marvellously about the "herky-jerky movement" and the telescoping of change in the state. After the gold came citrus, oil, property, lettuce ("green gold"), aircraft and, most recently, Silicon Valley. With their Apple iPhones, Californians have reclaimed Eden. Joan Didion wrote that in California "things had better work out here, because here, beneath that immense bleached sky, is where we run out of continent."

But not out of sea. The discovery of gold shifted global perspectives. It led Karl Marx, who had already completed "The Communist Manifesto" with Friedrich Engels, to start his studies over again, culminating in "Das Kapital". A new market had sprung up out of nothing.

It also reified notions of long-distance exchange across the Pacific: no sooner had Americans looked upon the West Coast than they looked beyond it. Starting with Hawaii, Manifest Destiny took to the water, in the form of missionaries, trade, expeditionary forces and notions of decisive sea power advocated by Alfred Thayer Mahan, a naval theorist.

By now, American expansionism began to resemble Europe's old-fashioned imperial empires, which it was fast approaching from an eastward direction. Having taken the Philippines from Spain in 1898, occupation not liberation followed. The same techniques used against the American Indians—terror, atrocities, native reservations—were put to service crushing the squalid Filipinos. Nine-tenths of the generals fighting in the Philippines had fought Indians. The commanding general thought that it might be necessary "to kill half the Filipinos in order that the remaining half of the population may be advanced to a higher plane of life." The Philippines prove to be a quicksand, but the Americans keep marching "if only in a circle, while the politicians plumb the phrase book of American ideals." Korea (Mr Cumings's early area of expertise), Vietnam, Iraq and Afghanistan: the left-leaning historian sees a consistency, at least, in latter-day interventions.

Most Americans are clueless about the Philippines occupation, in which hundreds of thousands of civilians died. Even after recent wars they have little sense of the United States as an imperial power. The author shines a light on America's "stealth empire" abroad today, unsure of its mission. The American century, Mr Cumings contends, began only in 1941 with Japan's attack on Pearl Harbour and America's occupation of Japan after defeat. In Asia, he is not convinced that China's rise has changed the equation. From Pearl Har-



Heaven's gate

bour today, the US Navy dominates the Pacific, and America's Asian allies still communicate on security matters through the United States rather than with each other.

America has 800-odd military bases and installations around the world, some of the biggest in Asia. Mr Cumings calls them an "archipelago of empire", largely out of sight to fellow Americans. He tours bases in South Korea and Japan. They live in another age, with Pat Boone on the jukebox. Contact with the natives seems mainly with the kind who, for a fee, squirrel up and down on your lap. Cultural communication with "the Orient" remains tricky. This is a lively rattlegab of a history of the Pacific slope and of how the Pacific Ocean came to be an American lake. ■

#### Artists in 19th-century Britain

## Outsider

*Into the Frame: The Four Loves of Ford Madox Brown.* By Angela Thirlwell. Chatto & Windus; 328 pages; £25

THE Pre-Raphaelites and their "stunners", as Dante Gabriel Rossetti called his models, have long been the object of fascination. Perhaps that is why so little has been written about Ford Madox Brown (1821-93), a painter who, though closely associated with them, never joined their fraternity. With his upbringing and early training in France and Belgium, Brown was always the outsider. Angela Thirlwell's "Into the Frame", a carefully researched and sympathetic biography of Brown and the four women he loved, helps fill that gap, while making a valuable contribution to the growing literature ►►

about women who have figured in the lives of prominent men.

Not that these women were in anyone's shade. Out of the four, three were educated and independent-minded, two of them creative in their own right. His pupil, Marie Spartali, impossibly beautiful, intelligent and rich (her businessman father was the Greek consul-general in London), became a painter of repute. Mathilde Blind, daughter of German political refugees, was a published poet, novelist, translator and biographer. Brown's first wife, his cousin Elizabeth Bromley, whom he married when he was only 19, was also a cultivated woman. All of them related to him as equals, which says as much for him as for them.

Emma Hill, whom Brown married after Elizabeth's death, is more elusive. The daughter of a bricklayer, she was uneducated—like other wives and models in Brown's circle—and has left little trace beyond her presence in his paintings. But from the outset, she was clearly a force: "a girl as loves me came in and disturbed me", Brown wrote in his diary. She was fun and sexy, "the most beautiful duck in existence", he wrote, and despite difficulties he never lost his feeling for her.

Emma drank. It's a wonder more of them didn't. Death shadowed them. Brown's first marriage to Elizabeth filled the gap left by the deaths from tuberculosis of his mother and sister, his only sibling. Their first baby died within five days, Elizabeth herself five years later. And so it continued. Daughters from both marriages survived, but sons died, one of them, Nolly, Emma's "golden boy", aged 19. Money was often tight. Brown's paintings were admired by his fellows, but others often thought them ugly and awkward. He fell into depressions.

"Had a mushroom for tea and thought about death," Brown wrote in his diary. A heroic stoicism emerges from these lives. They mourned and yearned in private. Elizabeth urged herself to observe Silence, Order, Moderation and Humility. Brown forbade tears at Nolly's funeral. His love for Marie remained unspoken—except in secret sonnets. Emma never wrote, but she achieved over time a steady gentleness that could soothe Brown at a word.

In among all this, Ms Thirlwell weaves the stories of Marie and Mathilde, both much younger, and each carrying a huge emotional and intellectual charge. Their feelings for him as an older man were complex, but much of it had to do with his sympathy for them as artists. Ms Thirlwell writes with great thoughtfulness and insight. The only character who seems to have needed a little forcing is Mathilde—so admirable in her feminism, so interesting in her political radicalism, so beautiful in her photograph—and yet, reading between the lines, so utterly self-absorbed. ■

Henri Matisse

## Ascent of a master

A new exhibition expands what we know about how Matisse worked

ON A trip to Chicago to give a lecture, John Elderfield, then chief curator of painting and sculpture at the Museum of Modern Art (MoMA) in New York, dropped in to see how conservation of Henri Matisse's monumental painting, "Bathers by a River", was coming along. He was hooked. The result, five years later, is an exhibition that dramatically changes established ideas about the artist's work and working methods.

A scholar, Mr Elderfield has always been attracted to questions that are hard to answer. He is from the tough former mining county of Yorkshire, which may have shaped his conviction that if an undertaking is easy, it isn't worth doing. During his more than 30 years at MoMA (he retired in 2008), there were many thorny problems to engage him. Quite a few concerned Matisse. His 1992 exhibition, "Henri Matisse: A Retrospective", was a tremendous popular and critical success. He imagined he had probably given the subject everything he could. But not at all, it turned out. His "Matisse Picasso", the first major exhibition devoted to these two giants, opened in 2003. Only a couple of years later, in Chicago, he was enmeshed again.

After studying the conservation of "Bathers by a River", Mr Elderfield felt that there might be much to learn if MoMA's

own 1916 Matisse masterpiece, "The Moroccans", underwent a similar analysis. From there the project grew. Mr Elderfield, who reads detective fiction for relaxation, turned detective himself. Along with his co-curator, Stephanie D'Alessandro of the Art Institute of Chicago, the sleuthing began in earnest. Their discoveries form the core of a new show, "Matisse: Radical Invention 1913-1917".

This is the first major exhibition to focus on the years between the painter's last visit to Morocco and his departure for Nice. In that time he created many of the works that are now regarded as masterpieces. His sculptures included "Back", a series of plaster reliefs cast in bronze. Among paintings there was "The Red Room", "The Piano Lesson" and "Interior with Goldfish". And, of course, there was "Bathers by a River" and "The Moroccans", which Matisse considered "among the most pivotal works" of his career. Nevertheless, critics and art historians found his output perplexing, somehow "unMatissey". Sometimes the artist seemed to be a cubist; sometimes not. He appeared to abandon colour. "Bathers", after all, borders on monochrome. Ah, but then think of that explosive room of red. So it went.

What was he up to? "The practice of a genius is complicated," Mr Elderfield observes. The art historian set out to discover how the pictures were made. Archives were researched; fine needles inserted into tiny blobs on the surface of pictures removing minute cross-sections of the paint underneath. Stereoscopic microscopy, infra-red reflectograms and x-radiography were employed. New developments in software design were instrumental in making science useful to art history.

These examinations revealed that when Matisse created an image it was often only a starting point. In the case of "Blue Nude", for instance, the canvas was wiped clean more than two dozen times before he was satisfied. Five other versions of "Bathers by a River" were discovered; three of "The Moroccans". At times Matisse scraped the surface of his pictures, scratched them or made incisions as if they were clay.

It turns out that Matisse was not in a muddle. He had not lost his way. He was not painting like someone else; some alternative Matisse. Instead, he was pushing himself to his limits as he searched for his unique "method of modern construction". The stages of his struggle have been uncovered and recorded; the glory of his achievements more comprehensively revealed. As for Mr Elderfield, busier than ever in retirement, he is already on to his next project. ■

"Matisse: Radical Invention: 1913-1917" is at the Art Institute of Chicago from March 20th until June 20th and then at the Museum of Modern Art in New York from July 18th until October 11th. The catalogue is published by Yale University Press.



Posing with palette





## Emile Fradin

Emile Fradin, peasant-proprietor of the Glozel hoard, died on February 10th, aged 103

**D**AWN springs up, and the plough-boy must be at work. So at first light on March 1st 1924 Emile Fradin, with his grandfather, harnessed the cows to till a field called Duranthon. A putain of a field, never ploughed before, strewn with rocks and slippery with clay sloping down into a ravine. The river Vaireille flowed at the bottom, scraggy woods crowned the tops, in a four-house hamlet called Glozel in an unknown corner of the Allier 12 miles from Vichy in the very middle of France.

The field was all brambles, and the cattle struggled. One of them, Florence, stumbled into a hole, and the plough crashed sideways. But the hole, as Emile hauled the cow out, turned out to be an underground chamber containing axes, ceramic vases, strange scratched bricks and human bones. Emile smashed a few of the pots to see if there were coins inside; no luck. The glazed bricks that lined the chamber glistened in the sun.

Emile was 17 then, some years out of village school, with an early moustache and a ready, cheeky grin. By the time he was 25 he would have mixed with professors of prehistory and epigraphy from all over Europe, with the curator of the Louvre, with the premier archaeologists of France, and with the law. In his work-clothes and wooden sabots he watched the strangers

come and dig his field, now renamed the Champ des Morts or Field of the Dead, from which in the end some 5,000 curious artefacts emerged. But the question that proved hardest to answer—over which students fought each other with stink-bombs, and butchers' boys wrestled in the Paris streets—was whether this was a genuine ancient burial, Neolithic or even Paleolithic, or whether young Mr Fradin had forged the lot himself.

### A mysterious alphabet

The finds were hugely intriguing. Visitors to Mr Fradin's museum, admission four francs, would find—will still find—masks and carvings of faces without mouths; bones pierced with holes, with the sun's rays scratched round them; ceramic pots, schist rings, polished stones. Some figures were hermaphrodite idols, with phalluses in their foreheads. Several bone carvings showed reindeer running, though reindeer were thought to have died out in that part of France 10,000 years earlier. But most exciting were the dozens of square clay tablets inscribed with letters which, if Neolithic, predated by many millennia the Phoenician characters from which Western alphabets were supposed to have come—making Glozel, not the Middle East, the cradle of Western civilisation.

This extraordinary argument came originally from Antonin Morlet, a Vichy doctor and amateur archaeologist who took over the excavation. Emile had enlisted him, cycling over the hills to fetch him, because his father was threatening to plant the field. Dr Morlet paid the Fradins 200 francs a year to dig there, and wrote articles about the finds in Emile's name as well as his own. Emile thus became a scholar by association, signing his name with stylish swagger, though snobbish Parisians still thought him an "insolent" peasant boy.

Between 1926 and 1928 Dr Morlet brought in professionals. Some, including a committee of experts, thought the site was certainly Neolithic, though with a baffling admixture of Iron Age, Roman and medieval remains. Others dismissed it out of hand. Emile stuck to his story. When the curator of the Louvre mocked him he sued him for defamation, David against Goliath. When police, tipped off by the president of the French Prehistoric Society, raided his farmhouse-museum, carrying away even the saucepans in which his little brother had been mixing dirt, he yelled at them and was beaten for it. He was accused of creeping out at night to bury fresh-scratched stones, but no one proved it. He was formally charged with fraud, but all the charges were dismissed.

The chief of the Criminal Records Office in Paris, inspecting the alphabet tablets in 1928, said he found fresh grass in them, as well as apple stems and fibres from 20th-century clothes. But in 1982 a Swiss scholar thought the tablets and the letters came from Celtic times. Thermo-luminescence testing in 1973 suggested dates anywhere from 3008C to 13000AD; carbon-dating ranged from the 5th to the 15th century; the Ministry of Culture, in a curt résumé of 1995, concluded that the site was medieval. Mr Fradin sat tight, knowing that despite the improbabilities of the site—so much, from so many ages, all jumbled in one field—each piece that was declared genuinely old solidified his reputation. In 1990 he was awarded the Ordre des Palmes Académiques for his discovery. Though argument still raged, and continues to rage online, he felt vindicated.

He never sold a single item of the 5,000, though many people asked, and the money would have helped a farmer with a family. He kept the objects safe in their glass cases, some reverently laid on red cloth.

As for the field called Duranthon, he never ploughed it. It is archaeology that has broken up the hummocky ground. And only more impartial digging will resolve the mystery of Glozel. The misty March trees survey the ghosts of bonemen, Romans, Celts, medieval farmers, archaeologists in straw hats; and the young Emile Fradin, urging his team towards the secrets of the dead. ■

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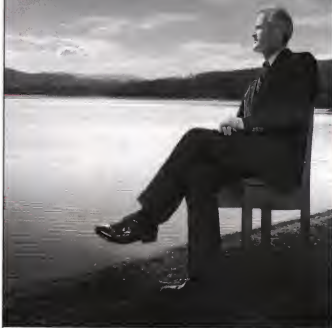
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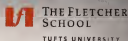
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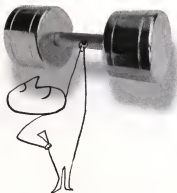
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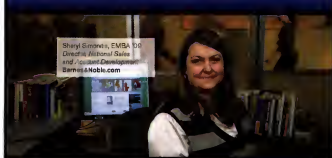
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## Appointments



UNIVERSITY OF OXFORD

[www.ox.ac.uk/jobs](http://www.ox.ac.uk/jobs)

## Dubai Ports World Professorship of Entrepreneurship and Innovation

**In association with Green Templeton College**

Following the generosity of global logistics operator DP World, the University of Oxford established the Dubai Ports (DP) World Professorship of Entrepreneurship and Innovation in the Said Business School. It is hoped to make an appointment as soon as possible in 2010. The School seeks to appoint someone who has gone beyond organisational approaches to integrate institutional, social, cultural, cognitive, or political processes involved in innovation, complementing the research strengths of current faculty. Those who have explored issues of entrepreneurship and innovation in a science or technology domain are of particular interest, complementing work being done elsewhere in the School. The Professor will be required to take on the role of Academic Director of the Oxford Centre for Entrepreneurship and Innovation.

Evidence of both the applicant's international reputation as a scholar and potential to contribute to the future research profile of the School will be significant factors in determining suitability for the post.

Please see the further particulars at [www.admin.ox.ac.uk/fpf](http://www.admin.ox.ac.uk/fpf) for more details about the post and for full instructions before making an application. Applications, including a covering letter and full CV, and naming three referees should be received no later than Monday 17 May 2010 by Dr Gwen Booth, Personnel Officer, Senior Appointments at [professorships@admin.ox.ac.uk](mailto:professorships@admin.ox.ac.uk). If you have a query about how to apply, please contact Mrs Elaine Eastgate at [professorships@admin.ox.ac.uk](mailto:professorships@admin.ox.ac.uk) or telephone: +44 (0)1865 280189.

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## Professor Positions

Korea University with 105 years' history as the most prominent private-sector university in Korea invites applicants for tenure and non-tenure track research/education positions to begin in August 2010. The university, with a faculty of approximately 1,500 full-time professors, seeks to invite about 55 prominent scholars in about 50 fields. Responsibilities for tenure-track include teaching at least two courses per semester in English, conducting/publishing research, and assuming various administrative duties to support academic functions. Applicants must possess (i) at least near-native fluency in English and (ii) a Ph.D. by the time of application. Applicants must also have experience in teaching at the college level, a strong commitment to excellence in scholarship, and dedication to undergraduate and graduate teaching in their research areas. Visit our homepage at [www.korea.ac.kr/~faculty](http://www.korea.ac.kr/~faculty) to submit an application on-line and upload your research plan in file format.

[Enquires] Phone : +82-2-3290-1072, 1074

Fax : +82-2-929-9164

E-mail : [faculty@korea.ac.kr](mailto:faculty@korea.ac.kr)

[Application deadline] : March 30, 2010.



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You are a top professional with extensive senior level experience of providing inspiring leadership to your team and managing a large and geographically widespread operation. This will be supported by an in-depth knowledge of China's social, political, and economic climate. You will have had experience in change management and working with senior level government ministries to bring about policy and practice change. You will keep Save the Children China on the leading edge of issues facing children in China, and demonstrate the impact of our work in improving children's lives. Ref: 5596.

Closing date: 28 March 2010.

For more information and to apply online go to [www.savethechildren.org.uk/jobs](http://www.savethechildren.org.uk/jobs)



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For more details and to apply, please visit [www.eib.org/jobs](http://www.eib.org/jobs) under the JESSICA heading.

Appointment to these posts is for a fixed period of three years, with the possibility of extension, depending on the development of the JESSICA initiative.



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## Pre-Qualification

Irrigation, Stormwater and Landscape Operation & Maintenance

بلدية مدينة أبوظبي  
MUNICIPALITY OF ABU DHABI CITY



The Municipality of Abu Dhabi City invites expression of interests from interested parties to enter into a contract or contracts involving:

- The operation and maintenance of the Municipality of Abu Dhabi City irrigation system
  - The operation and maintenance of the irrigation system will involve operation and maintenance of pump stations, reservoirs, major pipelines and associated valves, pits and instrumentation.
  - The major scope of works is electro-mechanical oriented with same quantity of civil works.
- The operation and maintenance of the Municipality of Abu Dhabi City stormwater system
  - The operation and maintenance of the stormwater system will involve operation and maintenance of pump stations, stormwater pipes, pipe outlets and associated valves, pits and instrumentation.
  - The major scope of works is civil oriented with same quantity of electro-mechanical works.
- The operation and maintenance of the Municipality of Abu Dhabi City landscape area
  - The landscape operation and maintenance of this area will be divided into 12 separate contracts. Operation and maintenance of the contract will involve operation and maintenance of soft and hard landscape features in parks, gardens, road verges, including trees, grass, shrubs, irrigation system, fountains, pavements, swimming pools, playground equipment and lighting features.

Interested organisations can apply for one of any combination of the irrigation, stormwater and/or landscape contracts.

The contracts will be undertaken through a performance based type contracts, with terms of approximately 5 years.

The Municipality of Abu Dhabi City intends short-listing parties from this pre-qualification process to subsequently be invited to submit fully detailed and costed proposals for the:

- Irrigation O&M Contracts; and/or
- Stormwater O&M Contracts; and/or
- Landscape O&M Contracts.

The Pre-qualification Brief can be obtained by contacting: **prfd@adm.abudhabi.ae** marked "PRE-QUALIFICATION – [IRRIGATION, STORMWATER and/or LANDSCAPE] O&M".

Interested organisations should include in their email: **Contact Person, Postal Address, Email Address, Phone (Mobile and Landline) and Fax.**

Project briefings will be held. Further details of these briefings will be provided upon request for the Pre-qualification Brief.

Pre-qualification responses shall be addressed to the Head of Tendering and Contract, and delivered by hand (courier acceptable) to:

**Municipality of Abu Dhabi City, Tendering and Contract Division, Head of Division, Second Floor, Abu Dhabi, UAE:**

**By 10:00 am on Thursday 25 March 2010.**

[www.adm.gov.ae](http://www.adm.gov.ae)

## Appointments

### SecureLeadership

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Our client, a fast-growing and reputable business intelligence and investigations company is seeking to recruit a director for its investigations practice. The role offers the successful applicant significant opportunities to develop and progress in a dynamic business environment. Candidates will require at least five years experience in a multi jurisdictional investigations practice (fraud, money laundering, white collar crime, corruption etc); perhaps from a legal, law enforcement or investigative journalist background. As well as being able to manage complex projects, he/she will need a sound business sense. The post will be London based but with overseas travel. Salary circa £100k

Cover letters and CVs, both in either Word or pdf format, should be sent to Becky Burrill.  
**becky.burrill@burrillgreen.com**  
Tel: +44 (0)1233 622173

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#### SELECTION OF TECHNICAL CONSULTANT FOR PREPARATION OF FEASIBILITY REPORT FOR DEVELOPMENT OF SEA PORT AT TADADI

##### NOTICE INVITING TENDER

This is with reference to the Notice dated 30th January 2010, inviting Tender regarding selection of Technical Consultant for preparation of Feasibility Report for Development of Sea Port at Tadadi. The proceedings of pre-proposal conference & responses to the queries raised in the pre-proposal conference are hosted on the website of KSIIDC. Addendum to RFP is being hosted shortly. Those who have not participated in the pre-proposal conference of 16.02.2010 could also participate in the Tender. The last date for submission of detailed proposal is extended to 19th April 2010.

Sd/- Managing Director

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Kingdom of Saudi Arabia  
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Prince Mohammad Bin Abdulaziz  
International Airport Project  
Madinah Al Munawwarah



### Invitation for Prequalification

The General Authority of Civil Aviation ("GACA") of the Kingdom of Saudi Arabia wishes to offer private investors the opportunity, through an international competitive bidding process, to develop, rehabilitate, expand, finance and operate Prince Mohammad Bin Abdulaziz Airport in Madinah under a long term Public Private Partnership ("Project").

GACA has appointed the International Finance Corporation ("IFC"), a member of the World Bank Group, as Lead Advisor to assist in the structuring and implementation of the Project.

GACA now invites interested parties with experience in the construction and operation of international airports to submit prequalification applications on or before 3:00 p.m. (Jeddah time) on 18th April, 2010.

For further information, please visit the website: [www.madinahairportppp.org](http://www.madinahairportppp.org)

#### GACA

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Mohammad Nada (PPP Consultant)  
General Authority of Civil Aviation  
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Kingdom of Saudi Arabia  
Tel: +966 2 640 5000  
Fax: +966 2 640 4822  
[alsamirani@gaca.gov.sa](mailto:alsamirani@gaca.gov.sa)  
[mohammadnada@yahoo.co](mailto:mohammadnada@yahoo.co)

#### IFC - Lead Advisor

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Kain Woods / Alexandre Leigh  
International Finance Corporation  
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United Arab Emirates  
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## CAIRO GOVERNORATE

### CAIRO TRANSPORT AUTHORITY Participation of the private Sector in Public Bus Transportation Project

Cairo Transport Authority "CTA" invites private sector companies, including specialized local and international companies and investors for participation in providing public bus transportation services by the submission of their proposals to operate a specified route bundles in the international general bid to be held pursuant to the provisions of Law no. 89 of the year 1998 for Bidding and Procurement, its Executive regulations and their amendments.

- For eligibility purposes, Bidders should have special expertise in this area and should be capable of demonstrating sufficient technical, financial, and managerial capabilities for undertaking the execution of works.
- Proposals should be submitted in two sealed envelopes; the first shall contain the technical proposal enclosed therewith the bid bond the sum of EGP 250,000 (two hundred fifty thousand Egyptian pounds only), and the other envelope shall contain the financial proposal. Both envelopes should be delivered to the CTA Chief of the Central Department for Contracts, Procurements, and Stores, on the address mentioned below no later than 12:00 noon on Tuesday June 15, 2010. The envelopes should be clearly marked "APPLICATION FOR THE AWARD OF A FRANCHISE FOR THE PARTICIPATION OF THE PRIVATE SECTOR IN THE PUBLIC BUS TRANSPORTATION IN GREATER CAIRO."

- Any proposals received after the above-mentioned date shall be disregarded, whatever the reasons for such delay.

The Request for Proposal may be purchased as of March 18, 2010 upon submission of a written request to the CTA Chief of the Central Department for Contracts, Procurements, and Stores at the same address below against a non-refundable fee of EGP 10,000 (ten thousand Egyptian pounds only) or its equivalent in convertible foreign currencies according to the exchange rates prevailing on the date of payment. The payment of the said fee may be made in cash or by certified cheque in CTA Cash Department.

- Technical Questions and Answers Session shall be held starting 11:00am on Tuesday April 6, 2010 at CTA headquarters.
- For more information, bidders may contact CTA during the official working hours from 8:30 am until 3:00 pm at CTA headquarters at the following address:

**Address:** Cairo Transport Authority - Central Department for Contracts, Procurements, and Stores, Cairo, Nasr City, Ramses Street Extension, El-Gabal El-Ahmar.

Tel.: 00202 23422703 / 00202 23425715

Fax: 00202 23420291

Email: [public\\_transport@cairo.gov.eg](mailto:public_transport@cairo.gov.eg)



## Overview

In **America**, the number of people employed outside agriculture fell slightly, by 36,000 during the month of February. The unemployment rate was unchanged at 9.7%. A little under 41% of unemployed Americans, or 6.1m people, have been out of work for six months or more. The number of people working part-time because they cannot find full-time work rose by 0.5m to 8.8m.

GDP in the **euro area** edged up by 0.1% during the three months to the end of December but compared with the previous quarter, GDP declined by 2.1% year-on-year.

Industrial output in **Germany** was 0.6% higher in January than in December. The output of manufactured goods rose by 0.9% over the month. Germany's exports in January were 0.2% higher than a year earlier, but fell by 6.3% during the month of January.

**China's** exports grew by 45.7% in the year to February. Imports grew almost as quickly, rising by 44.7% year-on-year. But both fell during the month of February, with exports showing a month-on-month decline of 13.7% and imports falling by 8.9%. The trade surplus was \$7.6 billion in February, just over half January's figure of \$14.2 billion.

**Japan's** current-account surplus for January was \$899.8 billion (\$9.9 billion), marginally lower than December's \$900.8 billion.

Inflation in **Mexico** was 4.8% in February.

**Taiwan's** exports rose by 32.6% in the twelve months to February. Imports rose by 45.8%.

Indicators for more countries, as well as additional series, can be found at

[Economist.com/Indicators](http://Economist.com/Indicators)

## Output, prices and jobs

% change on year ago

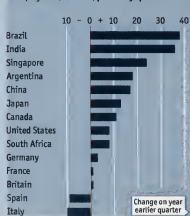
	Gross domestic product			Industrial production	Consumer prices			Unemployment rate, %
	latest	qtr*	2010†	2011†	latest	year ago	2010†	
United States	+0.1 Q4	+5.9	+3.1	+2.9	+0.9 Jan	+2.6 Jan	mil	+2.2 9.7 Feb
Japan	-1.0 Q4	+3.8	+1.7	+1.6	+18.2 Jan	-1.3 Jan	mil	-0.9 4.9 Jan
China	+10.7 Q4	na	+9.6	+8.1	+12.8 Feb	+2.7 Feb	-1.6	+3.5 10.2 2009
Britain	-3.3 Q4	+1.1	+1.3	+2.1	-1.5 Jan	+3.5 Jan	+3.0	+2.7 7.8 Dec†
Canada	-1.2 Q4	+5.0	+2.7	+3.0	-5.0 Dec	+1.9 Jan	+1.1	+1.5 8.3 Jan
Euro area	-2.1 Q4	+0.4	+1.2	+1.4	-5.0 Dec	+0.9 Feb	+1.2	+1.2 9.9 Jan
Austria	-1.8 Q4	+1.5	+1.3	+1.4	-4.6 Dec	+1.3 Jan	+1.1	+1.2 5.3 Jan
Belgium	-0.8 Q4	+1.2	+1.4	+1.5	-4.0 Nov	+0.7 Feb	+1.9	+1.2 12.1 Feb†
France	-0.3 Q4	+2.4	+1.6	+1.6	+3.5 Jan	+1.1 Jan	+0.7	+1.3 10.1 Jan
Germany	-2.4 Q4	mil	+1.6	+1.5	+2.1 Jan	+0.6 Feb	+1.0	+0.9 8.2 Feb
Greece	-2.6 Q4	-3.1	-0.9	+0.3	-7.6 Dec	+2.8 Feb	+1.6	+0.4 10.6 Nov
Italy	-3.0 Q4	-1.2	+0.9	+1.2	+0.1 Jan	+1.1 Feb	+1.6	+1.4 8.3 Q4
Netherlands	-2.2 Q4	+1.0	+1.2	+1.5	+0.8 Dec	+0.8 Feb	+2.0	+0.9 5.6 Jan†
Spain	-3.1 Q4	-0.4	-0.3	+1.0	-4.6 Jan	+0.9 Feb	+0.7	+1.4 18.8 Jan
Czech Republic	-4.2 Q4	na	+0.8	+2.8	+1.8 Dec	+0.6 Feb	+2.0	+1.6 9.9 Feb
Denmark	-3.4 Q4	+0.9	+1.3	+1.8	-10.4 Jan	+1.9 Feb	+1.9	+1.5 4.2 Jan
Hungary	-4.0 Q4	-1.6	-0.7	+2.8	-1.4 Dec	+6.4 Jan	+3.1	+3.7 10.8 Jan†
Norway	-1.2 Q4	+0.4	+1.8	+2.0	-3.1 Jan	+3.0 Feb	+2.5	+1.5 3.3 Dec†
Poland	+3.1 Q4	na	+2.5	+2.8	+8.5 Jan	+3.6 Jan	+2.8	+2.8 12.7 Jan†
Russia	-8.9 Q3	na	+3.5	+4.3	+7.8 Jan	+7.2 Feb	+13.9	+7.9 9.2 Jan†
Sweden	-1.5 Q4	-2.2	+2.2	+2.4	-0.2 Jan	+1.2 Feb	+0.9	+1.2 9.4 Jan†
Switzerland	+0.6 Q4	+3.0	+1.3	+1.6	-6.7 Q3	+0.9 Feb	+0.2	+0.7 4.1 Feb
Turkey	-3.3 Q3	na	+3.4	+4.3	+12.1 Jan	+10.1 Feb	+7.7	+4.8 13.1 Nov†
Australia	+2.7 Q4	+3.7	+2.9	+3.3	-3.8 Q3	+2.1 Q4	+3.7	+2.4 5.3 Feb
Hong Kong	+2.6 Q4	+9.5	+4.7	+3.6	-8.6 Q3	+1.0 Jan	+3.1	+2.0 4.9 Jan†
India	+6.0 Q4	na	+7.7	+8.0	+16.8 Dec	+16.1 Jan	+10.5	+10.7 10.7 2009
Indonesia	+5.4 Q4	na	+5.5	+5.9	+5.5 Dec	+3.8 Feb	+8.6	+5.8 8.1 Feb
Malaysia	+4.5 Q4	na	+3.7	+4.0	+8.9 Dec	+1.3 Jan	+3.9	+1.5 3.6 Q3
Pakistan	+2.0 2009**	na	+2.9	+4.2	+6.8 Dec	+13.0 Feb	+21.1	+9.4 5.2 2008
Singapore	+3.5 Q4	-6.8	+4.9	+4.8	+39.4 Jan	+0.2 Jan	+4.3	+2.3 2.1 Q4
South Korea	+6.0 Q4	+0.7	+5.1	+4.0	+36.9 Jan	+2.7 Feb	+4.1	+2.9 4.8 Jan
Taiwan	+9.2 Q4	na	+4.2	+4.6	+69.7 Jan	+2.4 Feb	-1.3	+1.4 5.7 Jan
Thailand	+5.8 Q4	+15.3	+3.2	+4.1	+26.6 Jan	+3.7 Feb	-0.1	+3.0 0.9 Dec
Argentina	-0.3 Q3	+0.2	+3.1	+2.6	+9.7 Nov	+8.2 Jan	+6.8	+10.2 8.4 Oct†
Brazil	-1.2 Q3	+5.1	+5.0	+4.5	+16.0 Jan	+4.8 Feb	+5.9	+4.7 7.2 Jan†
Chile	-1.6 Q3	+4.6	+5.2	+4.5	-1.1 Jan	+0.3 Feb	+5.5	+1.7 8.7 Jan†
Colombia	-0.2 Q3	+0.9	+2.5	+3.4	+2.0 Dec	+2.1 Feb	+6.5	+2.5 14.6 Jan†
Mexico	-2.3 Q4	+8.4	+3.4	+2.8	+1.6 Dec	+4.8 Feb	+6.2	+5.6 5.9 Jan†
Venezuela	-5.8 Q4	na	-4.8	-1.2	-14.3 Sep	+27.0 Feb	+29.5	+32.0 7.4 Oct†
Egypt	+4.9 Q3	na	+5.4	+5.5	+6.7 Q3	+13.6 Jan	+14.4	+10.5 9.4 Oct†
Israel	+1.9 Q4	+4.4	+3.2	+3.6	-2.5 Dec	+3.8 Jan	+3.3	+2.1 7.4 Oct
Saudi Arabia	+4.4 2009	na	+3.3	+3.5	na	+4.1 Jan	+9.1	+3.5 na
South Africa	-1.4 Q4	+3.2	+2.8	+3.7	+3.2 Dec	+6.2 Jan	+8.1	+5.9 24.3 Dec†

\*% change on previous quarter, annual rate. The Economist poll or Economist Intelligence Unit estimates/forecast. †National definitions. ‡BPI inflation rate 3.7 in January. \*\*Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. \*\*\*Unofficial estimates are higher.

## Employment outlook

In 27 out of 36 countries surveyed by Manpower, an employment-services firm, more companies said they expected to add workers in the three months to the end of June than said they expected to reduce their workforce. The difference between the proportion of hirers and firers was highest in Brazil and India, at 38% and 36% respectively. Throughout Asia, companies have become more optimistic about hiring than they were a year ago, most dramatically in Singapore and only marginally in Japan. Things look less rosy in Europe. In Spain and Italy, more companies expect shrinkage in their workforce than expect it to grow. In Italy and the Netherlands (not shown) the outlook has darkened from a year ago.

Balance of employers expecting an increase or decrease in employment, Q2 2010, percentage points



Source: Manpower

## The Economist commodity-price index 2000=100

	Mar 2nd	Mar 9th*	one month	one year
Dollar Index				
All Items	209.7	210.9	+3.4	+37.6
Food	197.5	196.6	-3.0	+10.0
Industrials				
All	225.4	229.4	+11.6	+90.3
Metals	199.2	200.8	+7.3	+91.4
Metals	239.7	245.0	+13.6	+89.7
Sterling Index				
All Items	213.0	213.4	+7.7	+27.1
Euro Index				
All Items	143.0	143.6	+4.6	+29.2
Gold				
\$ per oz	1118.80	1123.25	+5.6	+25.6
West Texas Intermediate \$ per barrel	79.80	81.29	+10.2	+77.8

\*Provisional. †Non-food agricultural.

## Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, \$bn	Current-account balance latest 12 months, \$bn	% of GDP 2010†	Currency units, per \$ Mar 10th	year ago	Budget balance % of GDP 2010†	Interest rates, % 3-month latest	10-year gov't bonds, latest
United States	-517.0 Dec	-465.3 Q3	-3.2	-	-	-10.5	0.16	3.71
Japan	+43.5 Dec	+152.9 Jan	+2.8	90.6	97.7	-7.8	0.29	1.27
China	+175.8 Feb	+284.4 Q4	+5.0	6.83	6.84	-3.3	1.94	3.35
Britain	-129.9 Jan	-28.2 Q3	-1.1	0.67	0.73	-14.0	0.65	4.10
Canada	-4.4 Dec	-36.6 Q4	-2.3	1.02	1.28	-3.6	0.20	3.67
Euro area	+33.1 Dec	-76.2 Dec	-0.4	0.73	0.78	-7.2	0.65	3.15
Austria	-5.0 Dec	+7.5 Q3	+1.3	0.73	0.78	-5.0	0.65	3.55
Belgium	+17.9 Nov	-3.2 Sep	+0.4	0.73	0.78	-6.6	0.66	3.66
France	-59.5 Jan	-52.6 Dec	-1.8	0.73	0.78	-8.6	0.65	3.45
Germany	+193.1 Jan	+168.9 Dec	+5.2	0.73	0.78	-5.6	0.65	3.15
Greece	-42.8 Dec	-37.2 Dec	-9.7	0.73	0.78	-9.5	0.65	6.04
Italy	-5.6 Dec	-67.9 Dec	-2.5	0.73	0.78	-5.0	0.65	3.92
Netherlands	+47.7 Dec	+34.8 Q3	+4.9	0.73	0.78	-6.0	0.65	3.42
Spain	-69.9 Dec	-73.2 Dec	-4.5	0.73	0.78	-11.6	0.66	3.84
Czech Republic	+8.6 Jan	-1.5 Dec	-2.2	18.7	21.2	-5.2	1.43	4.05
Denmark	+12.7 Dec	+13.0 Jan	+2.5	5.45	5.83	-5.8	1.45	3.43
Hungary	+5.4 Dec	-2.1 Q3	-2.1	195	235	-4.0	5.75	7.33
Norway	+53.2 Jan	+53.5 Q4	+15.8	5.87	6.94	10.5	2.32	3.33
Poland	-4.8 Dec	-7.2 Dec	-2.8	2.84	3.60	-2.8	4.13	5.81
Russia	+120.8 Jan	+47.5 Q4	+1.7	29.5	35.1	-8.0	8.50	6.65
Sweden	+11.4 Jan	+29.2 Q4	+7.1	7.12	8.79	-3.0	0.17	3.22
Switzerland	+19.4 Jan	+42.4 Q3	+7.7	1.07	1.16	-1.6	0.25	1.74
Turkey	-40.9 Jan	-33.9 Dec	-3.0	3.53	1.74	-5.2	7.39	4.83
Australia	-8.2 Jan	-42.4 Q4	-4.0	1.09	1.54	-3.2	4.34	5.55
Hong Kong	-37.6 Jan	-24.7 Q3	-4.0	7.76	7.76	-0.2	0.13	2.53
India	+81.8 Jan	-31.5 Q4	-4.0	45.4	51.9	-6.4	3.92	8.27
Indonesia	+21.8 Jan	+10.6 Q4	+1.0	9.17	11.77	-1.4	7.05	5.25
Malaysia	+35.2 Jan	+32.0 Q4	+12.0	3.32	3.70	-5.8	2.43	1.51
Pakistan	+14.7 Jan	-22.0 Q3	-3.5	84.5	80.3	-5.6	12.35	8.99
Singapore	+25.9 Jan	+25.9 Q4	+11.8	1.40	1.53	-2.7	0.50	2.60
South Korea	+40.3 Jan	+45.8 Jan	+3.5	1.131	1.471	-4.1	2.88	4.88
Taiwan	+17.8 Feb	+42.6 Q4	+6.4	31.7	34.5	-4.0	0.90	1.22
Thailand	+18.3 Jan	+19.9 Jan	+4.0	32.7	36.0	-3.4	1.35	3.31
Argentina	+17.2 Jan	+85.3 Q3	+2.4	3.86	3.64	-1.5	12.06	na
Brazil	+24.3 Feb	-25.4 Jan	-2.7	1.77	2.34	-3.4	8.65	6.16
Chile	+15.3 Feb	+0.8 Q3	+2.0	517	601	-0.7	0.60	1.99
Colombia	+1.7 Dec	-6.1 Q3	-1.8	1.883	2.507	-3.8	3.98	5.00
Mexico	-3.5 Jan	-5.2 Q4	-1.6	12.6	15.2	-1.6	4.41	7.59
Venezuela	+19.2 Q4	+8.6 Q4	+7.0	6.75	5.75	-3.0	15.32	6.55
Egypt	-25.4 Q3	-4.9 Q3	-0.7	5.48	5.68	-9.3	9.56	1.88
Israel	-5.3 Jan	+5.2 Q3	+2.4	3.74	4.20	-4.4	1.32	3.70
Saudi Arabia	+212.0 2008	+134.0 2008	+11.5	3.75	3.75	1.7	0.74	na
South Africa	-12.0 Q3	-5.7 Q4	-7.0	10.1	6.2	7.13	8.84	na

\*Merchandise trade only. †The Economist poll or Economist Intelligence Unit estimate. ‡Dollar-denominated bonds. §Unofficial exchange rate.

## Markets

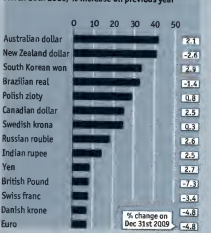
		% change on		
	Index	Dec 31st 2009	in \$	in %
	Mar 10th	one week	current	in %
United States (DJIA)	10,567.3	+1.5	+1.3	+1.3
United States (S&P 500)	1,145.6	+2.4	+2.7	+2.7
United States (NASDAQ)	2,759.0	+3.4	+4.0	+4.0
Japan (Nikkei 225)	10,563.9	+3.0	+0.2	+0.2
Japan (Toxip)	922.4	+1.9	+1.6	+1.6
China (SSE)	3,196.9	+1.6	-7.0	-7.0
China (SSE 5, 1 terms)	252.8	+0.4	+0.2	+0.2
Britain (FTSE 100)	5,640.6	+1.9	+4.2	+4.2
Canada (S&P TSX)	11,961.1	+0.9	+1.8	+1.8
Euro area (FTSE Euro 100)	903.6	+2.9	+1.3	+1.3
Euro area (EU STOXX 50)	2,909.4	+3.1	+1.9	+1.9
Austria (ATX)	2,517.4	+2.5	+0.9	+0.9
Belgium (Bel 20)	2,634.2	+1.6	+4.9	+4.9
France (CAC 40)	3,943.6	+2.6	+0.6	+0.6
Germany (DAX)	5,936.7	+2.0	-0.3	-0.3
Greece (Athex Comp)	2,139.8	+6.2	+2.6	+2.6
Italy (FTSE/MIB)	22,638.7	+4.1	+2.6	+2.6
Netherlands (AEX)	341.0	+2.7	+1.3	+1.3
Spain (Madrid SE)	1,153.4	+4.1	+1.1	+1.1
Czech Republic (PX)	1,177.4	+2.5	+3.8	+3.8
Denmark (OMXC20)	350.7	+1.5	+1.1	+1.1
Hungary (BUX)	22,852.6	+6.4	+7.7	+7.7
Norway (OSEAX)	420.7	+2.5	+0.1	+0.1
Poland (WIG)	40,991.0	+3.0	+2.5	+2.5
Russia (RTS, 5 terms)	1,501.4	+2.8	+1.3	+1.3
Sweden (OMXS30)	1,013.0	+3.2	+6.4	+6.4
Switzerland (SMI)	6,873.6	+0.9	+0.5	+0.5
Turkey (ISE)	52,753.0	+2.0	+1.3	+1.3
Australia (All Ord.)	4,829.8	+1.8	+1.1	+1.1
Hong Kong (Hang Seng)	21,208.3	+1.6	-3.0	-3.0
India (BSE)	17,098.3	+0.6	+2.1	+2.1
Indonesia (JSX)	2,670.2	+4.0	+5.4	+5.4
Malaysia (KLSE)	1,328.2	+3.3	+4.4	+4.4
Pakistan (PSX)	9,785.0	+3.9	+4.2	+4.2
Singapore (STI)	2,862.3	+2.9	+1.2	+1.2
South Korea (KOSPI)	1,662.2	+2.5	+1.7	+1.7
Taiwan (TWI)	7,779.1	+2.0	+5.0	+5.0
Thailand (SET)	720.8	+1.9	+1.9	+1.9
Argentina (MERV)	2,332.2	+1.8	+0.5	+1.1
Brazil (BVSP)	69,979.0	+3.5	+2.0	+6.6
Chile (GPA)	17,751.1	+2.5	+6.8	+6.8
Colombia (IGBC)	11,836.3	+1.7	+2.0	+10.7
Mexico (IPC)	32,505.8	+0.5	+1.2	+4.9
Venezuela (IBC)	27,453.7	+0.8	+4.3	+12.3
Egypt (Case 30)	6,775.8	+0.1	+9.3	+9.3
Israel (TA-100)	1,143.5	+1.6	+7.4	+8.6
Saudi Arabia (Tadawul)	6,566.0	+2.6	+7.3	+7.3
South Africa (JSE AS)	28,077.1	+1.5	+1.0	+1.0
Europe (FTSEurofirst 30)	1,058.8	+2.2	+1.2	+3.6
World, dev'd (MSCI)	1,180.3	+2.0	+1.0	+1.0
Emerging markets (MSCI)	923.4	+2.6	+0.4	+0.4
World, all (MSCI)	392.2	+2.1	+0.9	+0.9
World bonds (Citigroup)	828.7	+0.8	+0.2	+0.2
EMBI+ (JPIMorgan)	509.0	+1.2	+3.2	+3.2
Hedge funds (HFRQ)	1,167.2	+0.2	+0.9	+0.9
Volatility, VIX (VIX)	18.6	+1.8	+1.7	(levels)
CDs, Eur (EURAxx)	7.8	+8.6	+6.6	+5.5
CDs, N Am (CDX)	105.6	+7.3	+2.8	+2.8
Carbon trading (EU ETS)	13.3	+1.8	+4.7	+4.7

\*Total return index. †Mar 10th. ‡Credit-default-swap spreads, basis points. Sources: National statistics offices; central banks and stock exchanges; Thomson Reuters; JPIMorgan Chase; Bank Leuven (Leuven); CIBC; CME; Danske Bank; EBS; HXMA; Markets; Standard Bank Group; UBS; Westpac.

## Exchange rates against the dollar

During the past twelve months many major currencies have risen against the dollar. The appreciation has been most marked for the Australian dollar, which has strengthened by 41.9% against the greenback. New Zealand's currency, which has appreciated by 40.9%, follows closely behind. Sterling also appreciated against the dollar over the past year, though its recent bout of weakness can be seen in a 7.3% drop since December 31st 2008. Several other rich-world currencies, like the Swiss franc and the euro, have also fallen against the dollar since the end of last year. Emerging-market currencies like the ruble, the Indian rupee and the zloty have all appreciated against the dollar over the same period.

March 10th 2010, % increase on previous year



Source: Thomson Reuters

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position. And one of Mr Hatoyama's coalition partners, the People's New Party, has threatened to quit the government if a suffrage bill goes to the diet.

Mr Maki argues that the bill is popular neither among his constituents nor among the Koreans he knows. He believes they should become full citizens instead, in which case they would be granted full suffrage. And he insists there is no xenophobia. But the debate does suggest Japanese people still have plenty of misgivings about their neighbours from Korea and China. To be fair, this mistrust is heartily reciprocated. At 469,000, the Koreans are the biggest group of foreign permanent residents in Japan (though Chinese visitors are more numerous). The government makes Koreans born in Japan, who may never have been to the peninsula, choose between North and South Korean national-

## Economic reform in Malaysia

# Out with the new

KUALA LUMPUR

## Najib wavers over undoing affirmative-action policies

WHEN Najib Razak took office last April as Malaysia's prime minister, the timing could hardly have been worse. The export-led economy was in recession. The ruling coalition was in the dumps after an unprecedented near-defeat in elections in March 2008. Opponents warned that Mr Najib's government would crack down on political dissent to save its skin.

Against the odds, though, Mr Najib, a British-educated economist, has emerged

system saps Malaysia's competitiveness, and has driven some frustrated members of the minorities—mainly Chinese and Indians—to decamp to more meritocratic countries. Mr Najib has signalled a readiness to pare back the privileges for so-called *bumiputras* (sons of the soil). They were introduced, as the "New Economic Policy" by his father, Abdul Razak, Malaysia's second prime minister, after race riots in 1969. The idea was to redress the imbalance under which the Chinese minority in particular dominated the economy.

Investors have been waiting eagerly for Mr Najib's "New Economic Model" (NEM). Officials say that the NEM will be unveiled in the next few weeks. But details may be sketchy, as Mr Najib tries to contain a backlash, including from the ranks of his own party, the United Malays National Organisation (UMNO). Some members are siding with Perkasa, a new Malay-rights group led by Ibrahim Ali, a former UMNO MP. Mr Ali, who is accused by opponents of sowing racial hatred, says Malays are still not ready to compete on a level playing field. "We want our fair share," he insists.

One of this comes as a surprise as *Bumiputras* yield a stream of uncontested, dated contracts and other forms of privilege to UMNO politicians. Last year Mr Najib seemed to win the argument that "red" economic growth, essential to the ruling coalition's slide in the polls, needed some sacrifices. Now, however, heavyweights are siding with Perkasa in a rear-guard action. Nor Mohamed Nik Aziz, a minister in charge of economic planning, says that the NEM is still being refined and declines to elaborate. He adds that, for the model to work properly, it must be "inclusive".

The way to stimulate the economy is to be to sell stakes in government enterprises, which might also catch the eye of private investors, whom Mr Najib is trying to lure back. Wai Ho Leong, an analyst at Capital, an investment bank, says that besides cutting the fiscal deficit, which rose to 7.4% of GDP last year, privatisation could put Mr Najib's target of 6% annual growth within reach.

That still falls short of the 8% annual average that the government says it needs to achieve its "2020 vision" for Malaysia of developed status by that date. But this requires action on the structural impediments to private investment, which has never fully recovered from the 1997-98 Asian crisis. Chief among these is a poorly educated workforce that is no longer cheap when compared with Vietnam and Indonesia, and is short of the skills needed for innovation, as a brain-drain accelerates. Mr Ibrahim takes the long view, arguing it might take another 100 years for Malays to catch up with other races. Few investors have as distant a horizon.

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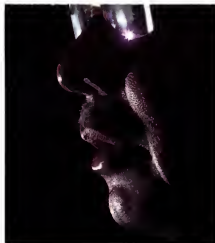


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DPJ's Tokyo headquarters and reportedly vented his frustration over the issue by smashing the prime minister's old computer beyond repair. Anti-Korean and anti-Chinese hatred is increasingly surfacing on the internet, too, and those countries give as good as they get. This week, for example, a cyber-skirmish erupted between South Korean and Japanese internet-users after a slight to Kim Yu-na, a South Korean figure-skater who trumped Japan's Mao Asada to win gold at the Vancouver Olympics.

The DPJ's handling of its internal critics over the voting-rights bill is a big test of Mr Hatoyama's courage and political principle. It may show just how far he has to go before the sea of "yui" (fraternity) that he hopes will extend across East Asia becomes more than just a dreamy slogan.



Najib ponders his patrimony

for most of the previous government's term, then "find the means to cross the double-digit growth barrier". Without bold reforms, that will be impossible, and even 9% may be out of reach.

So the timing of Mrs Gandhi's push for women's quotas might seem reckless. It suggests an overestimation of Congress's strength, and the party's failure to reassure the TC's irascible leader, Mamata Banerjee, is carelessness at best. Mrs Gandhi has picked her political fights carefully since taking over her murdered husband Rajiv's party in 1998, and won most of them. So she may not be too perturbed. The economy looks healthy enough, with growth forecast at 7.2% for the financial year ending this month. She will be more concerned by the government's failure to introduce more crowd-pleasing measures, like the lavish welfare schemes, paid for with the bumper revenues that rapid growth all launched in its previous term. With year's budget deficit nudging 10% of if you include the state governments, are harder times. Yet reservations for en should at least please half the crowd.

Devout Congressmen, buoyed by year's election result and the havoc played with the BJP, are pleased to see a Gandhi calling the shots. Many a jaundiced view of Mrs Gandhi's teocratic prime minister, Manmohan Singh, and look forward to her 39-year-old Rahul, taking over. This is likely to be in Congress's next government—but that will come is hardly worth gues. The party has been doing well. But only 208 of the Lok Sabha's 545 seats gress, and its government, are weaker leaders seem to think. ■

#### China mulls a property tax

## An odd sort of tax

BEIJING

That some liberals want and local governments fear

**A**GRANDMOTHER killed trying to stop developers flattening her home; university graduates forced to live in crowded slums; China's ebullient property market has generated many tales of woe, and a promise from the prime minister, Wen Jiabao, to "rein in" the speculators. But calls for this to be achieved with a new property tax have put the government in a bind.

In the past year property prices have surged to new highs in some places, helped by a torrent of carefree lending from state-run banks. Mr Wen made his pledge on March 5th, in a speech to China's parliament, the National People's Congress (NPC), launching its annual ten-day



session. The NPC is filled with party loyalists. But some have fretted openly about property bubbles. The government says house prices in 70 cities rose 10.7% in Febru-

ary (a sharp rise from a year earlier, but a steep fall from the peak in 2007). The prices of new properties, they say, would drop because they would no longer be inflated by the land-use fees, which developers pass on. Most also say the tax should only apply to properties above a certain size or that are not primary residences.

But others argue the tax would make hardly any difference to house prices, because of China's huge demand for housing as it urbanises. They also think assessing values would be far too complex in a property market still in its infancy.

Some advocates of the tax, however, eye broader benefits. Local governments, no longer drawn by land-fee windfalls, would be less prone to the sort of high-handed land-grabs that have triggered tens of thousands of protests in recent years—and this month the death of the grandmother. Owners, required for the first time

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duced. Property-company share prices fell accordingly. But a few days later a senior tax official said the government was still only studying the idea. In his speech Mr Wen made no mention of it at all.

Local governments are putting up tough resistance. For now they enjoy huge windfalls when they sell land-use rights to developers. Last year prices more than doubled (see chart). Some analysts believe that in many places fees from land transfers make up more than 30% of local-government revenues. They are a handy prop for these governments' risky fund-raising ventures (see page 78). Many supporters of the tax say it should incorporate the land-use fees. Those governments would take in their land revenues in instalments over very long periods (a schedule of little ap-

prejudices built up under the ousted Liberal Democrats. Yukio Hatoyama, the prime minister, backs it. The DPJ's secretary-general and puppeteer-at-large, Ichiro Ozawa, even assured Lee Myung-bak, South Korea's president, that he would soon push it through the Diet, or parliament.

Yet the legislative momentum has stalled, even within the ruling party. Yoshio Maki, a DPJ lawmaker who opposes granting South Korea's "special residents" local voting rights, believes it is a non-starter. He says Mr Hatoyama and Mr Ozawa may even have crystallised opposition to it by making it seem inevitable. Since the DPJ came to power, eight of the 34 prefectures that originally supported the move have changed their minds. The Liberal Democrats have hardened their op- ▶▶

Bishops, gays and equality

## Lords a-leaping

Even for the lords spiritual, the times are changing

TO OUTSIDERS, one of the oddest features of Britain's semi-theocracy is that 26 Anglican bishops have the right to sit in the upper chamber of the legislature, even though their church can claim the active adherence of less than 5% of citizens. But the "lords spiritual" still have clout, especially when the established church acts as an advocate for religion in general. That became clear in February, when the government backed away from a confrontation

The rise of the handyman

## Mr Fixit

Professional fathers are downing tools to play with their children

AS THE rich have got richer and those in work ever busier, people with children have discovered a new way of spending their money: on handymen to do the sorts of odd jobs fathers used to roll up their sleeves and take care of. Despite the recent recession, dads, it seems, would rather spend quality time with their offspring than put up shelves or fix dripping taps at the weekend. So their wives, themselves hard pressed, are hiring other men to change fuses and the like, thus making time to dine out, kick a football or visit museums en famille.

migrants. Many households hiring handymen already employ a small army of nannies, cleaners and gardeners.

Geoff Willett, chief executive of Hire A Hubby, agrees that the market for handymen, as distinct from specialist plumbers, electricians, decorators and so forth, has grown. He bought his company from its Australian founders and launched it in Britain in October 2009. "Our guys are all reporting good business," he claims.

Miss Perrons says that rich folk find the services of handymen more afford-

able. Top people's pay has risen significantly, and the influx of expatriates from eastern Europe, as well as the large numbers of the home-unemployed, has expanded the handyman market, lowering wages. Mostly mothers who converse with the workers, for the most part, do whatever the cynics say—spend the time thus liberated on their families, rather than in the gym or in the pub.

It also suggests a change in the way professional men view the researchers reckon. Gone when fathers spent their time promoting manliness by teaching Johnny how to hammer in nails, they derive their sense of success at work and from their masculinity through a display of power tools or an imposition of socket sets.

It may be just as well. One colleague, the ultimate metrosexual, is a minute, carolled his to a handyman who had about a vital tool. "I'll run and get Mummy's drill for you."



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Quakers, Unitarians and Liberal Jews—to solemnise unions between partners of the same sex. Conservative prophets of doom saw a slippery slope that would ultimately oblige Anglicans, Catholics and others to consecrate same-sex unions on their premises. The measure could, they feared, deprive bishops of any legal means to discipline a rebel priest who carried out such ceremonies against church rules. Or it could open the way for same-sex couples to allege discrimination if they were turned away from one of England's ancient places of worship. Given that Catholic and Anglican priests act as registrars (in other words, the rite they perform has legal effects as well as spiritual ones), would-be partners in a same-sex union could claim they were just exercising their right to "ser-

vice delivery" by state functionaries on equal terms with everybody else, a matter on which the new law has much to say.

One Anglican bishop, Michael Scott-Joynt of Winchester, voiced his enormous regret over the vote—but the retired bishop of Oxford, Lord Richard Harries (a peer in his own right), said he backed the measure because it was a simple question of religious liberty. Sooner or later, he thinks, the established church will have to recognise new social realities, including the fact that thousands of same-sex couples are in lifelong relationships.

Realities are indeed changing, even in the most conservative corner of the United

Kingdom, Northern Ireland. In recent weeks, none of Ulster's regular prelates has drawn a fraction of the attention enjoyed by Pat Buckley, a Catholic cleric who styles himself a bishop even though the Vatican has defrocked him. In the mainly Protestant port of Larne, he cheerfully weds same-sex couples and divorcees.

He announced at the beginning of the year that he was about to marry his own partner, a Filipino chef. The turbulent priest refuses to leave the fine church house that he has occupied for years; and as it ticks its wounds from sex-abuse revelations, Ireland's Catholic hierarchy will find it hard to discipline or evict him. ■

► was the Liberal Democrats."

Still others worry that, whatever his own gifts, Mr Clegg is too similar to Mr Cameron in his youth, looks and gilded background to stand out. (He quibbles with the last of those, pointing to the many years he spent working in America, eastern Europe and Central Asia while Mr Cameron remained snuggled up in London's political and public-relations scene.)

Yet Mr Clegg approaches the election in decent shape. Defying expectations of a Tory squeeze, his party is at around 18% in the polls: "I have been privately told, 'Don't be disheartened if you're down to 11% by this stage.'" Opposition to the Iraq war helped the Lib Dems do well last time, in 2005. But they could add MPs; they have their eyes on many Labour seats in northern England (where they run some big city councils) and think they will lose fewer to the Tories in the south than on. Upcoming television debates v Clegg equal billing with Mr BrC Cameron, a rare treat—though against expecting a "great eureka" from anyone. His campaign which double up as "tests" for seeking his support in a hung are progressive tax reform, extra spending for poor pupils, green more proportional voting system.

The Lib Dems' resilient app on a number of things. For a : they are talent-rich. Mr Clegg ar are not the only Lib Dems w merits, would win a place in th the Tory shadow team. Davi schools spokesman, and Ch who carries the home-affairs b too. The party also benefits fr torate's disdain for the gover scepticism towards the Conser

But perhaps the Lib Dems' n their policy on the issue likely t the next parliament: the ruinu icit. There is political as well a strategy behind their approach angulates between cutting sp early and cutting it too little. It to soothe worries that only a strong single-party government could retrench fiscally.

"In whatever circumstances we find ourselves", says Mr Clegg, "we will be the guarantors of fiscal responsibility. That means that if you have [the Tories] trying to run things, we would be a guarantor that they would not do stupid things like trying to cut dramatically when the economy can't sustain it... If it is [Labour] trying to soldier along, we are a guarantor that they would take this seriously rather than trying to live in denial." It sounds suspiciously like "What if?" politics, but a kind that voters, not to mention the financial markets, may be happy to hear. ■

For a transcript of this interview, see  
Economist.com/clegginterview

## Policing Northern Ireland

# The end of the beginning

BELFAST

Justice and policing are now devolved. What difference will it make?

THE Northern Ireland peace process passed another milestone this week when the Belfast Assembly voted by a large majority to approve the transfer of policing and justice powers from London. It was a significant breakthrough, given that quite a few assembly members have themselves attracted the attention of the police in the not-so-distant past. Now even those once considered dangerous will have a say on how the remaining paramili-

the UUP's deputy leader, Danny Kennedy.

In the assembly those bigger parties, Peter Robinson's Democratic Unionists (DUP) and Sinn Féin, often disagree. But together they command a majority, and when the two are in agreement they tend to pay scant attention to the UUP and other smaller elements.

In November 2008 the UUP formed an electoral pact with Britain's Conservatives, which the two parties presented as a new dawn for Northern Ireland. The trouble for both of them was that, although policing devolution should have been one of the brightest rays of that new dawn, David Cameron was unable to persuade his UUP allies to vote for it.

He tried hard. So did both Hillary Clinton, America's secretary of state, and, surprisingly, George W. Bush, who stirred from his post-presidential obscurity to ring

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reachable political primitives, intent on bringing down the peace process rather than joining it. Ireland's justice minister, Dermot Aherne, pointed out recently that, with 13 big incidents since September alone, the dissidents have a growing capacity for violence, calling them a major and growing threat. The security forces north of the border agree.

Yet although these small but lethal groups are proving hard to eradicate, and although the UUP momentarily lost the tune, the peace process's advocates are still mostly singing from the same hymn sheet. The impressive show of support for devolved policing encompassed London, Dublin and Washington as well as most of the political spectrum in Belfast. Now, let's see what Northern Ireland makes of it. ■